





İŞ REIC
> Investor Relations
> Financial Data & Reports
> Annual Reports

Contents

Presentation

2	İŞ REIC in Brief
3	Vision
3	Mission
3	Objectives
4	Capital and Shareholder Structure
6	Ordinary General Assembly Meeting of Shareholders Agenda
7	General Assembly Meeting and Attendance
10	Key Financial Highlights
12	Targets - Achievements
14	Stock Performance
16	Milestones in İŞ REIC's History
20	Message from the Chairman
22	Message from the CEO
24	Board of Directors
32	Senior Management

36	Declaration of Interest by Independent Board Members
39	Consultancy, Auditing, Rating and Appraisal Services
42	Real Estate Sector in 2016
46	Board of Directors Activities in 2016
50	Activities of the Investor Relations Department
52	Activities of the Audit Group
53	Risk Management
54	Human Resources
57	Corporate Social Responsibility
58	Additional Information Required by CMB Regulations
59	Changes in Legislation during the Reporting Period
60	Portfolio Information

Corporate Governance

100	Convenience Translation into English of the Independent Auditors' Report Related to Annual Report Originally Issued in Turkish
101	Dividend Policy
102	Profit Distribution Table
103	Corporate Governance Principles Compliance Report

Financial Information

119	Financial Statements as of and for the Year Ended 31 December 2016 with Independent Auditors' Report Thereon
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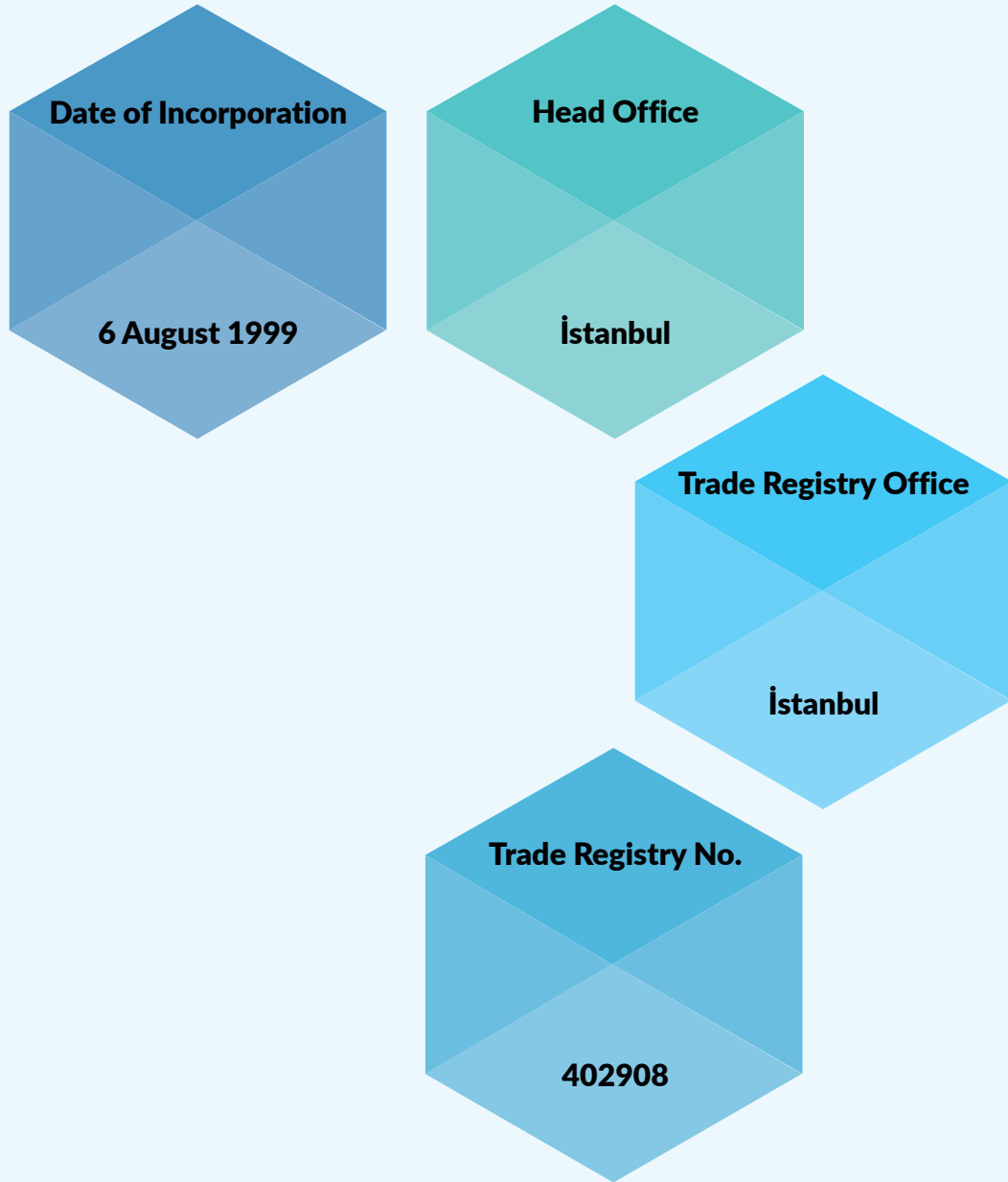
Sustainable growth and increasing added value for all stakeholders enabled by a well-balanced project mix

Boasting a solid market prestige and experience in the sector, İş REIC develops select projects in line with its mission spelled out as creating desirable spaces for contemporary people and contemporary cities, and preserves its healthy growth trend ever since its incorporation.

Diversifying its portfolio by investing in office spaces, retail sector and real estate projects, İş REIC's strategy is set as capitalizing on investment opportunities arising in areas that will further increase its ongoing revenues and profitability while also generating maximum benefit for its shareholders.



Using its solid shareholders' equity, funding facilities and sustainable sources generated on regular rental income derived on its high quality portfolio to finance its new investments, İş REIC takes sure-footed steps based on its determination to strengthen its position in the sector.



İş REIC in Brief

İş Gayrimenkul Yatırım Ortaklığı A.Ş. (İş REIC) was founded through the takeover of Merkez Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. by İş Gayrimenkul Yatırım ve Proje Değerlendirme A.Ş. on 6 August 1999, which was then transformed into a real estate investment trust.

Blending its market prestige backed by the deep-rooted corporate principles and financial strength of its parent İşbank Group with its sectoral experience and vision, İş REIC develops

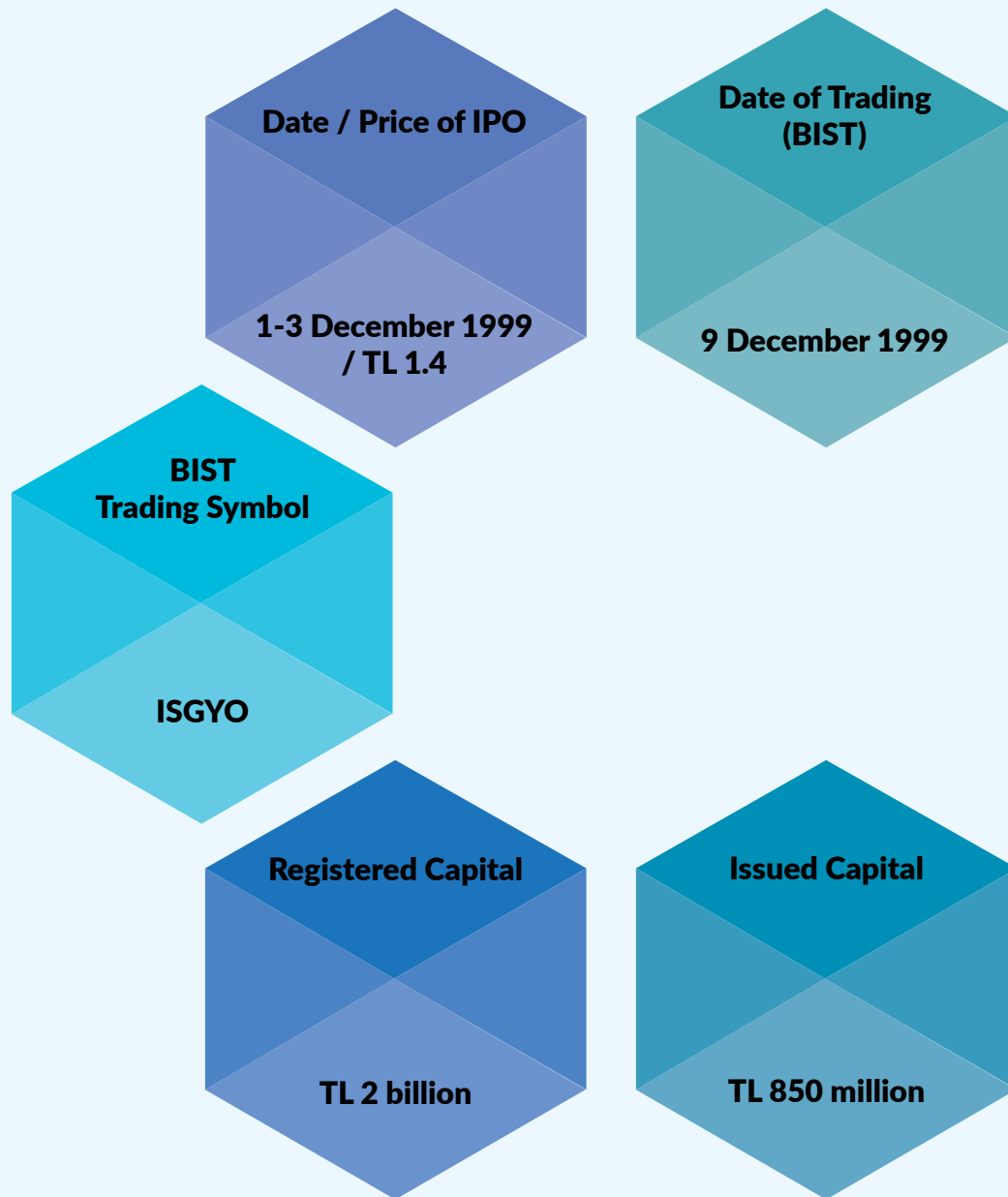
distinguished projects and maintains a healthy growth process since the day it was founded.

One of the sector's prominent companies with its diversified and well-balanced portfolio and robust financial structure, İş REIC focuses on providing its investors with an optimal possible risk-return trade-off.

Using its solid shareholders' equity, funding facilities and sustainable sources generated on regular

rental income derived on its high quality portfolio to finance its new investments, İş REIC takes sure-footed steps based on its determination to strengthen its position in the sector.

İş REIC, which invests in real estate properties and real estate projects, carry out its activities in compliance with the requirements of the Capital Markets Board of Turkey (CMB) laws and regulations.



Vision

To set a global corporate example not only by the projects it undertakes, but also with the way it conducts business, by its organizational structure, corporate values and management approach.

Mission

To create desirable spaces for contemporary people and contemporary cities.

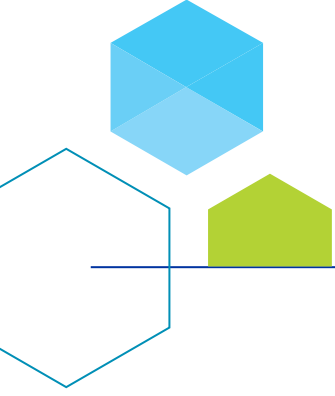
To maximize the collective value of the portfolio for the shareholders through sustainable growth and high profitability by utilizing our investments and resources effectively.

Objectives

To closely monitor opportunities for generating the highest possible returns for the shareholders.

To maintain and strengthen the leading position in the market.

Capital and Shareholder Structure



Strong capital

In 2016, İş REIC's paid-in capital was raised from TL 746 million to TL 850 million.

Capital Structure

İş REIC's issued capital amounts to TL 850,000,000, 44.08% of which is held by T. İş Bankası A.Ş. (İşbank). İşbank, the Company's shareholder, has management control over the Company; there are no non-corporate shareholders holding more than 5% in the capital of the shareholder that has management control over the Company.

The Company's issued capital is divided into 850,000,000 shares, each with a nominal value of TL 1; out of these shares, the portion corresponding to TL 1,214,285.68 make up Group A shares and the portion corresponding to TL 848,785,714.32 make up Group B shares. Group A shares are entitled to specific preferential rights with respect to their representation on the Company's Board of Directors: only one seat on the board is filled from among candidates designated by Group B shareholders while all the remaining seats are filled from among candidates designated by Group A shareholders.

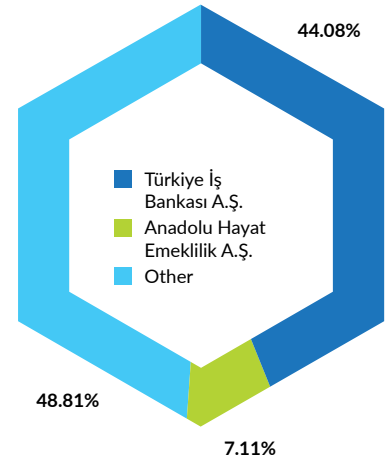
The shares issued for raising the Company's issued capital by TL 104,000,000 to TL 850,000,000 so as to remain within the registered capital of TL 2,000,000,000, which incremental amount will be covered from 2015 profit share as per the Board of Directors' decision dated 4 April 2016, have been registered with the CMB, and the process for

the exercise of rights in relation to the issued shares have been completed on 11 May 2016. Following the capital increase, the CMB approved the new version of "Article 7 - Capital and Share Certificates" of the Company's articles of association that shows the issued capital after the capital increase. The new capital that has been registered by İstanbul Trade Registry on 18 May 2016 has been promulgated in the Turkish Trade Registry Gazette issue 9082 dated 25 May 2016.

The authorized capital permission granted to the Company by the CMB is valid from 2012 through 2016 (for 5 years) and expires at the end of 2016. In order for the Board of Directors to pass a capital increase decision after 2016, the same needs to get an authorization for a new period of time from the General Assembly of Shareholders pursuant to the related Communiqué and the Company's articles of association. Accordingly, the Company filed an application with the CMB for extending the permission for its authorized capital in the amount of TL 2,000,000,000 for a period of 5 years from 2017 through 2021, and for amending "Article 7 - Capital and Share Certificates" within this context; the application has been approved by the CMB letter dated 27 December 2016. Upon receipt of the CMB approval, the Company filed an application with the T.R. Ministry of Customs and Trade, and received the Ministry's permission on 24 January 2017. The matter will be laid

Shareholder Structure

Capital and Shareholder Structure	TL	Share (%)
Türkiye İş Bankası A.Ş.	374,659,401	44.08
Anadolu Hayat Emeklilik A.Ş.	60,421,337	7.11
Other	414,919,262	48.81
Total	850,000,000	100.00



down for the approval of shareholders at the 2016 Ordinary General Assembly Meeting to be convened.

During the reporting period, the Company did not carry out a capital increase through rights issues.

Under the current Turkish Commercial Code (TCC) and Capital Markets Board (CMB) rules and regulations, companies are allowed to acquire shareholding interests in themselves. During the 2016 reporting period, İş REIC neither announced such a program nor bought back any of its own shares.

Article 14 of the CMB Communiqué (III-48.1) on the Principles Regarding Real Estate Investment Companies sets out that real estate investment trusts may issue shares that incorporate the privilege to nominate candidates for election of board of directors members. REICs are not allowed to issue any instrument that incorporates any preferential right other than shares that allow their holders to designate candidates for seats on their boards of directors. In such cases, the majority shareholder makes suggestions regarding Board Member nominees and the Members of the Board of Directors are elected by the General Assembly of Shareholders. The Company's articles of association contain no provisions pertaining to special voting rights.

Shareholder Structure

There were no significant changes in the Company's shareholder structure during the reporting period.

According to MKK's 31 December 2016 report, the nominal value of the Company's publicly-traded shares was TL 402.4 million, which corresponds to 47% of the Company's capital. The Company's publicly-traded shares held by international (non-resident) investors correspond to about 17% of the Company's capital.

Subsidiaries

Currently, the Company has only one subsidiary: Kanyon Yönetim İşletim ve Pazarlama A.Ş.

Kanyon Yönetim İşletim ve Pazarlama A.Ş.

Kanyon, set up on 6 October 2004 as a limited liability company in which İş REIC and Eczacıbaşı Holding each controlled a 50% stake, was transformed into a joint stock company status on 1 July 2015. This jointly-controlled company was created primarily to manage the residence, commercial, and office buildings, to provide the complex's cleaning, security, maintenance & repair, and grounds maintenance services, and to undertake the promotion and marketing of all real estate properties in the complex and to mediate their rental and sale.

Publicly-traded shares

As at 2016 year-end, the nominal value of the İş REIC's publicly-traded shares was TL 402.4 million, which corresponds to 47% of the Company's capital.

Ordinary General Assembly Meeting of Shareholders Agenda

Agenda for the Ordinary General Assembly Meeting of Shareholders of İş Gayrimenkul Yatırım Ortaklığı A.Ş. to be held on 23 March 2017

1. Opening, establishment of the Chairmanship Council,
2. Reading and discussion of the Board of Directors' Annual Report on 2016 activities and reading the Auditor's Report on activities in 2016,
3. Reading, discussion and approval of the financial statements of the year 2016,
4. Discharge of the Board Members for their activities in 2016,
5. Discussion and decision of the Board of Directors' proposal on the distribution of the operating profit in 2016,
6. Authorizing the Board of Directors for the years from 2017 through 2021 in relation to the Company's authorized capital of TL 2,000,000,000 within the frame of the permissions received from the CMB and the T.R. Ministry of Customs and Trade, and accordingly, approving the amendments to "Article 7 - Capital and Share Certificates" of the Company's articles of association,
7. Election of the Board Members and determining the terms of their service,
8. Determining the remuneration of the Board Members,
9. Election of the Auditor,
10. Authorization of the Board Members to conduct the transactions provided under the Articles 395 and 396 of the Turkish Commercial Law,
11. Informing the shareholders on the Company's donations made in 2016, and setting the limit for the donations to be made in 2017,
12. Informing the General Assembly of Shareholders under principle no. 1.3.6 of the Corporate Governance Principles,
13. Informing the shareholders pursuant to Article 37 of the CMB Communiqué No. III-48.1,
14. Wishes and suggestions.

General Assembly Meeting and Attendance

The Company's general assembly of shareholders convenes in ordinary (annual) and extraordinary sessions and makes decisions subject to the provisions of the Turkish Commercial Code (TCC), of applicable capital market laws and regulations, and the Company's internal directive on working principles and procedures of the general assembly. An ordinary session of the general assembly must be convened within three months of the closing of the Company's fiscal year, at which time the issues set forth in an agenda drawn up according to the provisions of article 409 of the TCC are to be discussed and decided upon. Extraordinary sessions of the general assembly are convened for any of the reasons set forth in articles 410 et sequitur of the TCC, at which time decisions are made as required.

Invitations to attend annual general assembly meetings are made by the Board of Directors within the framework of principles set forth in article 29 of the Capital Market Law. General meeting announcements are published on the Company's website, Public Disclosure Platform (KAP), and such other places as determined by the Capital Markets Board (CMB) regulations and other related legislation. Such announcements are published at least three weeks before the meeting date excluding the dates of the announcement and of the meeting.

Without prejudice to article 438 of the TCC, matters not included in the agenda may not be discussed and decided at a general assembly. However, shareholders' rights to add items to the agenda are reserved within the frame of the Corporate Governance Communiqué.

General assembly meetings are held at the Company's headquarters, except that when circumstances dictate, the

Board of Directors may summon a general assembly to convene at some other address in the same city as the Company's headquarters or in some other city.

Only shareholders whose names are on an attendance roster drawn up based on a list of company shareholders obtained by the Board of Directors from Central Registry Agency (MKK) may attend general meetings. Shareholders may have themselves represented at general meetings in accordance with the pertinent articles of the TCC. Article 30 of the Capital Markets Law will remain valid.

Beneficiaries who are entitled to take part in general meetings may do so online pursuant to article 1527 of the TCC via MKK's Electronic General Meeting System (e-GEM). As stipulated in the Company's articles of association, beneficiaries and their representatives are allowed to exercise their rights as specified in regulations pertaining to general meetings via the system that has been established at any general meeting of the Company that may take place.

When entering the meeting venue, non-corporate shareholders and their representatives appointed via e-GEM must present identification; the proxies of non-corporate shareholders must present identification together with evidence of their proxy status, whereas proxies of corporate shareholders must present their certificates of authorization. Everyone entering the meeting venue must sign the attendance roster in the space provided for their signature.

Shareholders who will lodge the shares followed up in dematerialized form must act in accordance with the provisions of the Regulation on the Principles and Procedures for General

Assembly Meetings of Joint Stock Companies and Ministry of Customs and Trade Representatives who will Attend These Meetings.

The regulations of the CMB and the requirements of the TCC will be adhered to when voting at a general assembly meeting. The right to attend the general assembly meeting and to vote cannot be linked to the requisite of a shareholder's depositing his/her shares with an entity.

At the Company, each nominal value of TL 0.01 gives entitlement to one vote, and shareholders vote at general assembly meetings pro rata the total nominal value of the shares they hold, pursuant to article 434 of the TCC. The Company's articles of association grant no privileges in relation to voting.

Votes in relation to matters discussed at a meeting may be cast by raise of hands or using certain electronic equipment facilitating the casting and counting of the votes. The manner of voting is determined by the meeting chair before the meeting begins.

The principles and procedures specified under the said article and subparagraphs shall apply to voting by shareholders or their representatives electronically attending the general assembly meeting pursuant to article 1527 of the TCC.

General assembly meeting and decision quorums are subject to articles 418 and 421 of the TCC and to relevant provisions of the Capital Market Law.

The regulations of CMB and the Ministry of Customs and Trade, along with the applicable articles of the TCC are adhered to in all matters related to the General Assembly.



An Invitation to Start Life Over

Co-developed by İş REIC and Nef, İstanbul İnistanbul Project is differentiated from its competition with its comfortable living standards, access to the subway and alternative roads allowing easy reach to all the corners of the city, vast green areas for spending a pleasant time, and the Foldhome concept, unmatched anywhere in the world.





Key Financial Highlights



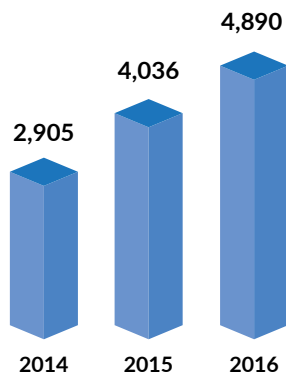
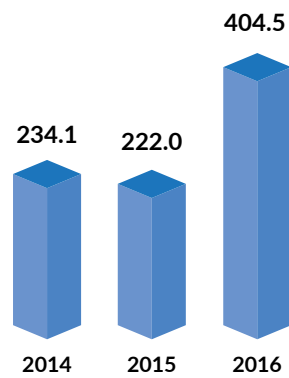
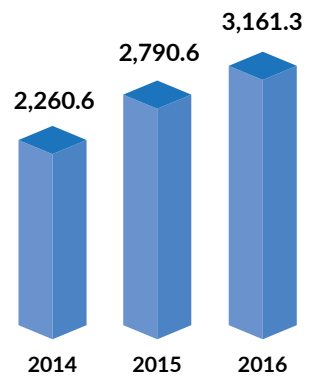
Balance Sheet (TL million)	31.12.2014	31.12.2015	31.12.2016
Current Assets	251.6	459.9	323.0
Non-current Assets	2,657.3	3,665.3	4,564.1
Total Assets	2,908.9	4,125.2	4,887.0
Short-term Liabilities	67.1	556.0	188.5
Long-term Liabilities	581.3	778.6	1,537.2
Shareholders' Equity	2,260.6	2,790.6	3,161.3
Net Profit	328.4	555.9	420.5

Financial Indicators (TL million)	31.12.2014	31.12.2015	31.12.2016
Sales Revenue	234.1	222.0	404.5
Cost of Sales	119.3	62.1	209.7
Gross Profit/Loss	114.7	159.9	194.8
Return on Assets	11.3%	13.5%	8.6%
Return on Equity	14.5%	19.9%	13.3%

Financial Structure (TL million)	31.12.2014	31.12.2015	31.12.2016
Total Liabilities	648.4	1,334.6	1,725.7
Shareholders' Equity	2,260.6	2,790.6	3,161.3
Financial Liabilities	477.5	710.6	1,055
Equity Ratio (%)	78	68	65
Total Liabilities/Shareholders' Equity (%)	29	48	55
Financial Leverage Ratio (%)	22	32	35
Financial Liabilities/Total Assets (%)	16	17	22
Financial Liabilities/Shareholders' Equity (%)	21	25	33

High sales revenues

In 2016, sales revenues augmented by 82% over 2015 due to deliveries in Ege Perla project and the sale of the Sirkeci Building.

Total Portfolio Value (TL million)**Sales Revenue (TL million)****Shareholders' Equity (TL million)**

Portfolio Breakdown (%)	TL million	% Share
Offices	2,238.6	45.8%
Shopping Malls and Hypermarket	858.7	17.5%
Projects	1,447.1	29.6%
Hotel	24.3	0.5%
Land	194.0	4.0%
Money & Capital Market Instruments	127.3	2.6%
Total	4,890.0	100.0%

Development of the Portfolio (TL million)	2014	2015	2016
Real Estate Portfolio	2,766	3,912	4,763
Total Portfolio Value	2,905	4,036	4,890
Total Assets	2,909	4,125	4,887

REIC Sector

Market Capitalization of the REICs	TL million	% Share
İş REIC	1,326	5.4
Other REICs	23,005	94.6
Market Total	24,331	100.0

Summary of Reporting Period Results

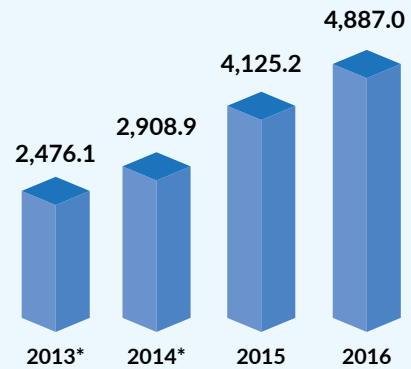
- Total assets of İş REIC increased by 18% year-to-year and reached TL 4,887 million in the reporting period.
- In 2016, sales revenues augmented by 82% over 2015 due to deliveries in Ege Perla project and the sale of the Sirkeci Building.
- İş REIC has a current ratio of 1.71.
- Every possible financing option for the investments is explored and the most suitable debt instruments and structures are chosen at the time of borrowing. The Company's year-end financial leverage ratio is 35%.
- 22% of İş REIC's assets are financed by means of borrowing in the current period and there's no difficulty in financing the debts if there's any need of additional borrowing.

Targets - Achievements

Utilization of investment and resources effectively

Achieving stable growth

Total Assets (TL million)

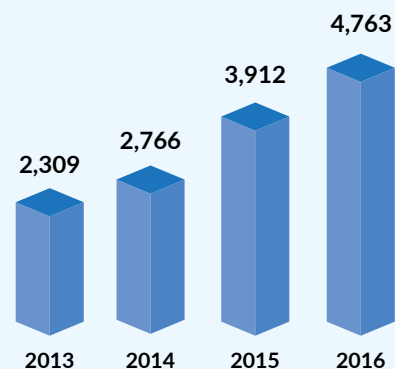


* Readjusted

Visionary and rational strategies

Leveraging the high performance

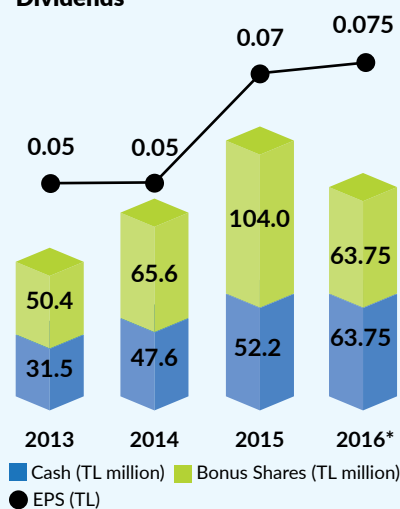
Real Estate Portfolio (TL million)



High-profitability principle

Rendering the shareholder value continuous

Dividends

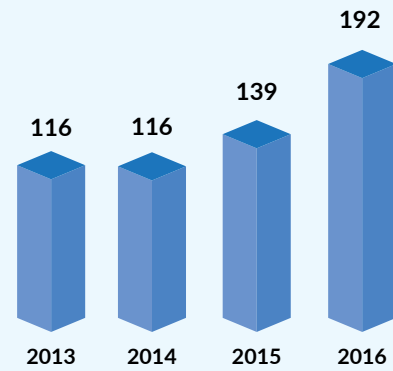


* Subject to the approval of the shareholders in the 2016 Annual General Meeting that will be held on 23 March 2017.

A lucrative real estate portfolio

Increase sustainable rental income

Rental Income (TL million)



Distinctive projects

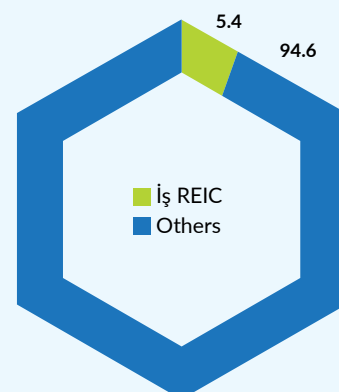
Creating desirable spaces for contemporary people and contemporary cities



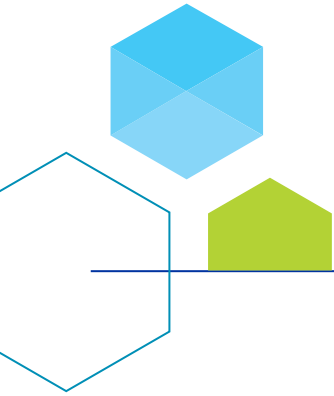
Focus on larger residential and mixed-use projects

Cementing the strong position in the sector

Market Capitalization of the REICs (%)



Stock Performance



With a market capitalization of TL 1,326 million as of 31 December 2016, the Company represents approximately 5.4% of the real estate investments sector.

During 2016, BIST 100 Index gained value by 9% and BIST REIC Index by 12% in terms of Turkish lira. During the same timeframe, İş REIC stock was up by 5%.

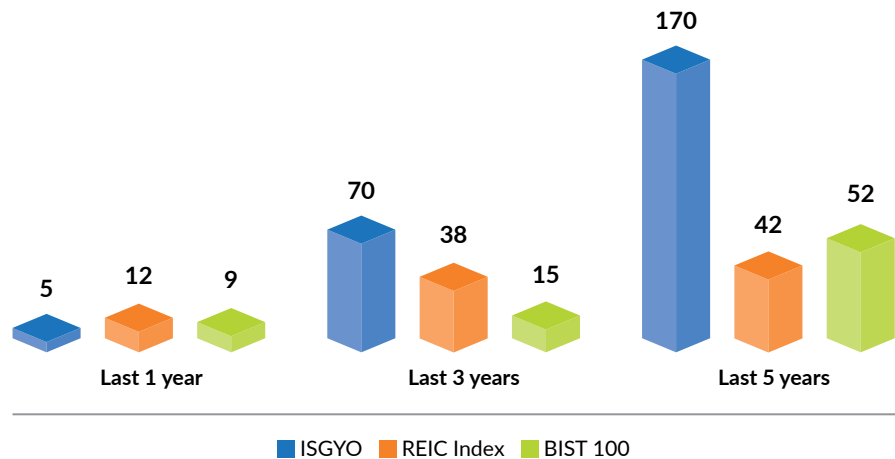
Lasting performance

Having gone up by 5% in value in the past one year, İş REIC stock secured 70% and 170% value gain based on its performance in the past 3 and 5 years, respectively.

Stock Performance	31.12.2014	31.12.2015	31.12.2016
Market Capitalization (TL million)	966*	1,313*	1,326
Market Share (%)	4.4	6.1	5.4
Earnings per Share (TL)	0.48	0.75	0.49
P/E Ratio	2.96	2.35	3.18
P/BV	0.43	0.47	0.42

* Market capitalizations are based on the closing price of the relevant year.

Share Performance (%)



İş REIC was included in the BIST Sustainability Index on 1 November 2016. The index represents listed companies on Borsa İstanbul with superior sustainability performances.

Having gone up by 5% in value in the past one year, İş REIC stock secured 70% and 170% value gain based on its performance in the past 3 and 5 years, respectively, and outperformed both BIST 100 and BIST REIC Indices.

The daily trading volume of the Company stock traded on the Collective Investment Products and Structured Products Market was worth TL 4.1 million in 2016.

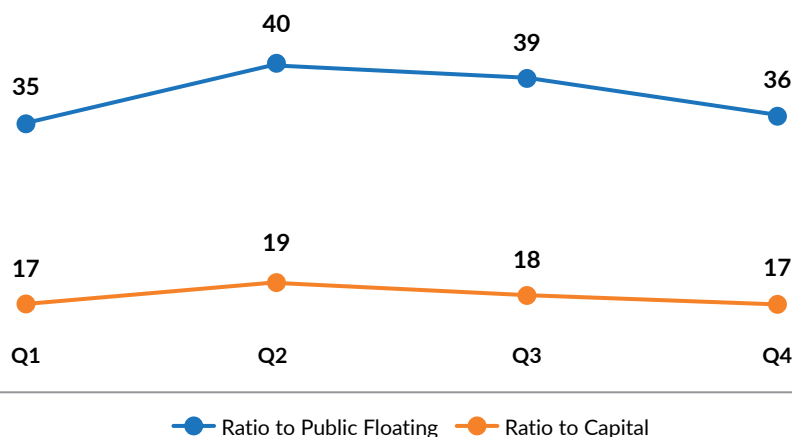
İş REIC was included in the BIST Sustainability Index on 1 November 2016. The index represents listed companies on Borsa İstanbul with superior sustainability performances.

Based on BIST's monthly data on "transactions realized on behalf and account of foreign banks/brokerage houses or individuals", foreign investors' net purchases in the REIC sector amounted to USD 130 million, that on the Stock Exchange to USD 647.4 million, and that on the Stars Market to USD 511.1 million during the year.

Purchases of İş REIC stock, on the other hand, totaled USD 77.5 million and sales of the same amounted to USD 69.2 million during the year. Total net sales balance of the stock was USD 8.3 million.

According to MKK's 31 December 2016 report, the nominal value of the Company's publicly-traded shares was TL 402.4 million, which corresponds to 47% of the Company's capital. The Company's publicly-traded shares held by international (non-resident) investors correspond to about 17% of the Company's capital.

Share of International Investors (%)



Milestones in İş REIC's History

1998

The Ankara İş Tower and İstanbul İş Towers Complex are added to the portfolio.

1999

The Company's IPO took place on 1 December through 3 December, and the Company's shares began to be traded on the stock exchange on 9 December 1999.

2001

The Maslak Office Building is added to the portfolio.

The Antalya Seven Seas Hotel is added to the portfolio.

The Muğla Marmaris Mallmarine Shopping Mall (Solaris Plaza) is added to the portfolio.

A 50,000 m² project land encompassing the Tatilya Theme Park and its immediate vicinity is added to the portfolio.

2004

The Ankara Ulus Office Building is added to the portfolio.

The Ankara Kızılay Office Building is added to the portfolio.

The Antalya Office Building is added to the portfolio.

Construction work begins on the Kanyon project, a complex consisting of a shopping mall, offices and residences.

2005

İş REIC was granted "Best Developer in Turkey" award by Euromoney magazine.

2006

The İstanbul Üsküdar land with an area of 32,081 m² is added to the portfolio.

Kanyon, Turkey's first semi-open air shopping mall, opens its doors.

Kanyon Shopping Mall's success is acknowledged by its receiving the "2006 Cityscape Architectural Review Award", the international "Oscar" for architecture.

2007

Real Hypermarket, a project undertaken for the Germany-based Metro Group on a turnkey-delivery basis, opens its doors to the public.

2008

The İstanbul Sirkeci Office Building is added to the portfolio.

The İstanbul Güneşli Office Building is added to the portfolio.

A 77,327 m² project land is purchased in the Kartal district of İstanbul.

2009

An independent and permanent superficies right was established for the property located in Esenyurt, İstanbul (site of the former Tatilya Theme Park), on behalf of ECE Turkey.

A plot of land with an area of 53,200 m², located in Tuzla, İstanbul and the immovable located on it, is purchased for future project development.

2010

The property on which İstanbul Taksim Office Lamartine project will be developed is added to the portfolio.

The Kapadokya Lodge Hotel is added to the portfolio.

The Club Magic Life Kemer Imperial Hotel is added to the portfolio.

Two plots of land measuring 44,393.35 m² and 21,305.22 m² in the Tuzla district of İstanbul are purchased for future project development.

2011

Pre-sales and construction work begin on the İstanbul Tuzla Çınarlı Bahçe Residential Project.

Construction work begins on the Taksim Office Lamartine project.

2012

Building permits are obtained for the İstanbul Tuzla Technology and Operation Center project and for the Tuzla mixed-use project and construction work begins on both.

A 9,590 m² land is purchased for project development in the İstanbul International Financial Center.

The Marmara Park Shopping Mall opens to the public in İstanbul Esenyurt.

After necessary ground improvement permits are received, construction work begins on the İzmir Ege Perla project.

Sales activities start for the Ege Perla project.

2013

Seven Seas Hotel and Club Magic Life Kemer Imperial Hotel are sold.

Life starts in the Çınarlı Bahçe project. Out of the 476 housing units in total, 426 are surrendered to their owners.

Construction is completed in the Taksim Office Lamartine project.

Topkapı property is purchased for developing a joint project, which was paid for by İş REIC by 75% and by Timur Gayrimenkul Geliştirme Yapı ve Yatırım A.Ş. (Nef) by 25%.

Ever since its incorporation, İş REIC has been working with the goal of bringing the Company to a stronger position in keeping with the criteria of creating shareholder value and sustainability.

2014

As a result of the sales of title share in Topkapı property, İş REIC and Nef now each has 50% share in the real estate.

İş REIC was assigned a corporate governance rating score of 9.09 on a scale of 10 by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş.

İstanbul Kartal Manzara Adalar project launch took place.

2015

İstanbul project launch took place and sales activities began. The project ranked among the fastest-selling housing projects with its high sales performance.

Building permit was obtained for the mixed-use project to be developed within the scope of the İstanbul International Financial Center Project.

Güneşli Office Building was sold.

Following the annual review, Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. revised the Company's corporate governance rating of 9.09 in the previous year to 9.27.

İstanbul Kartal Manzara Adalar project advertising film was awarded bronze at the Crystal Apple Turkey Advertising Awards Competition.

İstanbul Kartal Manzara Adalar project was elected the "Premium Project" in the "Best Marketing Campaign" category at the Sign of the City Awards.

Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. assessed the Company to be in "investment" category, and assigned a long-term rating of (TR) AA and a short-term rating of (TR) A1+, with a "Stable" outlook.

İstanbul project was a finalist in the "Best High-Rise Residence", "Best Marketing Campaign" and "Best Architectural Design Concept" categories and was awarded in the "Best Architectural Design Concept" category at the Sign of the City Awards.

İşbank Technology and Operation Center project and Tuzla Mixed-Use Project were awarded in the "Best Office" category at the Sign of the City Awards.

2016

Venue deliveries were completed at Tuzla Technology and Operation Center project. Within this context, TL 61.5 million was generated on rental income from Tuzla Technology and Operation Center.

Tuzla Mixed-Use Project was brought to completion. All of the offices and part of the commercial spaces were leased to T. Şişe ve Cam Fabrikaları A.Ş.

A 62,655 m² plot in Tuzla and the real property thereon were purchased for project development.

Manzara Adalar was named the premium project in the "Best Residence" and "Best Mixed-Use Project" categories at the Sign of the City Awards, and received an award in the "Best High-Rise Residence" category.

The rental process was initiated for İş Towers Complex Tower 3. It was decided to hire Jones Lang Lasalle Gayrimenkul Hizmetleri Ticaret A.Ş. and Pamir & Soyuer Gayrimenkul Danışmanlık A.Ş. to handle the process.

Sirkeci Office Building was sold.

A promise to sell agreement was executed for purchasing 45% share in the 9,043 m² land in Kadıköy, İstanbul, owned by Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Ltd. Şti. It was decided to acquire a 45% stake in the project comprising a hotel and commercial spaces, which is planned to be developed on the said land depending on the final zoning status.

A bonus issue was carried out and the issued capital was raised from TL 746 million to TL 850 million.

Merger talks were initiated with TSKB REIC.

Assessed to be in the "investment" category following the annual review, the Company was assigned a Long-Term National Rating (TR) of AA and a Short-Term National Rating of (TR)A1+, with their outlooks affirmed as "Stable".

İş REIC's Corporate Governance Rating, which was 9.27 in 2015, was upgraded to 9.34.

İş REIC was included in the BIST Sustainability Index.



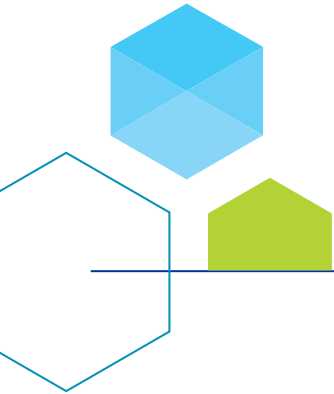
A design inspired by dreams

Manzara Adalar was named the premium project in the “Best Residence” and “Best Mixed-Use Project” categories at the Sign of the City Awards, and received an award in the “Best High-Rise Residence” category.





Message from the Chairman



As the global economy experienced yet another tough year amid contracted growth and trade, the policies pursued by central banks ranked high in the agenda once again in 2016. The non-growth issue tainting the global economy, the UK's decision to exit the EU membership (Brexit), Donald Trump's election as the new US president, geopolitical risks, and the rising US dollar and interest rates made the highlights of the reporting period.

US Federal Reserve (the Fed) did not take any action in the first half of the year despite the growth trend of the US economy, citing the fluctuations in the global economy and financial markets as the reason therefor, and hiked the rates by 25 basis points in its last meeting in December, thus closing 2016 with a single rate hike as was the case in the previous year. In the same meeting, the Fed officials increased the number of possible rate increases for 2017 from two to three.

The vagueness surrounding global monetary policies despite the limited recovery in developed countries in 2016 laid the ground for persistent volatility in financial markets, and for a negative impact to be borne on the financial asset pricing and risk premium indicators of emerging countries. The

currencies of the countries in this group depreciated, and the value loss further accelerated in the aftermath of the US election result and the Fed's rate hike.

2016 was characterized as a year of moderate growth conditions for the European economy. While Brexit left the markets in a short-lived confusion and uncertainty, the European economy maintained its growth in line with the projections. The European Central Bank extended its quantitative easing and support program aimed at reviving the economy until the end of 2017.

During 2016, Turkey had to deal with the negative impact of the domestic political events, the coup d'état attempt and terrorist acts upon economic activity and forecasts, in addition to the pressure exerted by the global macroeconomic circumstances.

To the backdrop of domestic developments and the turbulent period that followed the US presidential election, Turkey's risk premium indicators went up due to geopolitical risks that have been ongoing for some time, as well as to the highly depreciated Turkish lira and the increased long-term interest rates.

S&P's downgraded rating after the coup d'état attempt was followed by a similar move by the Moody's, which revised Turkey's rating downward to below investment grade. Fitch, on the other

hand, updated the rating outlook from "stable" to "negative" and left the rating unchanged in 2016; however, the rating agency reduced Turkey's rating to BB+ on 27 January 2017. Consequently, Turkey is left without an investment grade rating from any of the three major rating agencies.

In an effort to rekindle the economy that contracted in the third quarter of the year, the government introduced a number of reformative countermeasure packages to relieve the manufacturing industry, exporters, SMEs and the labor market. Having come out of this rough period on the back of her robust financial system and dynamics, our country registered a negative economic growth value in only one period, and pulled through the growth test, despite losing momentum.

The course of events in 2016 resulted in a significant decline in the ratio of direct investments within the financing of current deficit. In view of Turkey's high external financing need, next year's important factors with respect to our current deficit that has adopted an uptrend will include an upturn to be adopted by tourism revenues driven by alleviated geopolitical risks and mended tourism relations with Russia, which were interrupted, and strength to be gained by the resurgence observed in the exports to EU countries.

İş REIC preserves its robust and well-balanced portfolio composition that it has formed with the goal of securing stable and sustainable income for its shareholders for regular distribution as dividends, and nurtures it with new projects.



Our sector is in growth trend.

Defying the macroeconomically and politically grueling conditions, the construction industry and the real estate sector registered respective growth rates of 7.4% and 4.4% in the first three quarters of 2016.

Housing sales picked up considerably owing to the campaigns implemented in the last five months of the reporting period and 2016 ended as a new year of record. "Collaboration in Real Estate for a Stronger Turkey", launched by GYODER (Association of Real Estate and Real Estate Investment Trust Companies) and the leading companies in the sector, lent a significant momentum to the recovery observed in the construction and real estate sectors. In 2016, housing sales were 4% higher than they were in 2015.

Housing prices increased 9.1% in 2016, outdoing the rise in 2015, while the rise in new house prices slowed down significantly and stood at 2.9%.

Class-A stock supply kept rising in the office market, while rentals showed a noteworthy slowing trend due also to reduced demand. For the retail market, 2016 was dominated by cautious expectations in connection with the conjuncture and saw various measures taken in a bid to keep the sector lively.

The main points that will define the sector's roadmap in 2017 can be briefly described as follows:

- The government's decision to raise public investments by 27% to recuperate the decelerated economy and to expand infrastructure investments will extend a significant support to the construction industry.
- While building permits received in 2016 showed 6% growth in terms of square meters and the number of apartments in housing units, there was 4% decline in non-housing buildings. Accordingly, housing constructions are projected to continue at an increasing rate, whereas non-housing building investments are anticipated to lose pace in 2017.
- The campaigns implemented in the housing sector in 2016 drew part of the 2017 demand forward. To reach the same sales level in 2017, campaigns need to go on.
- Increases in exchange rates, and in turn, rises in construction costs might reflect on the prices of new projects and their sales.
- In 2017, our sector is anticipated to carry on with its activities directed towards growth in connection with the overall economic conditions within the frame of the developments mentioned above.

We are growing on the back of productive and profitable investments.

İş REIC preserves its robust and well-balanced portfolio composition that it has formed with the goal of securing stable and sustainable income for its shareholders for regular distribution as dividends, and nurtures it with new projects. On the other hand, our Company considers it as a responsibility emanating from its position to contribute to the environment and to building a livable future based on its mission of creating desirable spaces for contemporary people and contemporary cities.

As we implement our growth strategy, we are committed to strengthening our existence as a profitable company. I would like to extend my thanks to our shareholders for their solid support to our future plans, to our team for their hard work and dedication, and to our investors for their trust.

Levent Korba
Chairman

Message from the CEO



We sustained our successful performance also through 2016.

While attaining the planned progress levels in its ongoing projects, İş REIC increased its sales and regular rental income, and in turn, its revenues in 2016.

Our 2016 rental income sustained its stable growth in line with the rise in average rental fees in the valuable locations where our office spaces and shopping malls are situated, and amounted to approximately TL 192 million. Out of our rental income, 65% was derived on our assets in the office segment and the remaining 35% on our assets in the retail segment.

After deriving 98% of its total revenues that amounted to TL 404.5 million in 2016 on income from real estate, our Company posted TL 420.5 million in net profit for the period at the end of the year.

Total assets of İş REIC went up by 18% year-to-year to TL 4,887 million. Our Company's issued capital was raised by TL 104,000,000 to TL 850,000,000, which remains within the authorized capital of TL 2,000,000,000 and will be covered from the net profit for 2015.

With a market capitalization of TL 1,326 million as at 31 December 2016, our Company

represents 5.4% of the real estate investment trust sector. The Company's total portfolio value was up by 22% on an annual basis to TL 4,763 million in the reporting period.

During 2016, BIST 100 Index gained value by 9% and BIST REIC Index by 12%. During the same timeframe, İş REIC stock was up by 5%.

Having gone up by 5% in value in the past one year, İş REIC stock secured 70% and 170% value gain based on its performance in the past 3 and 5 years, respectively, and outperformed both BIST 100 and BIST REIC Indices.

In 2016, our Company qualified to take part in the "BIST Sustainability Index" which covers listed companies on Borsa İstanbul with superior sustainability performances.

Collaboration in our sector brought about a major breakthrough.

The housing sector showed stagnation from April 2016 and housing sales across Turkey shrank by 4% year-to-year in June 2016. However, a campaign was launched by GYODER (Association of Real Estate and Real Estate Investment Trust Companies) and the sector's leading companies with the tagline "Collaboration in Real Estate for a Stronger Turkey" as part of the measures introduced in the aftermath of the coup d'état attempt of July 15th in an effort to overcome the economic stagnation. Entailing 20% downpayment and an interest

rate of 0.70%, the campaign turned a new page in our sector and provided a meaningful proof of the fact that we can conquer difficulties by joining our forces.

While housing sales went up 4% on annual basis in 2016 according to year-end data, it is observed that the campaign implemented during the year and the declined housing loan rates have been the driving forces behind this rise and lent momentum to the sector.

İş REIC joined the campaign with its projects Manzara Adalar, and İstanbul co-developed with Nef, and took a significant step for stirring the sector into action. The campaign quickly received a good response from consumers, and total sales figure of TL 55 million was attained in the two projects in the first 15 days of August. The total sales from our Manzara Adalar and İstanbul projects amounted to approximately TL 120 million at the close of the campaign.

We are moving ahead with a focus on regular rental income and profitability.

The real estate sector in Turkey performs in direct proportion to the national economy and has different parameters with respect to growth and profitability dynamics. İş REIC takes these data into account when planning its investments and always notches up its goals.

İş REIC's total portfolio value was up by 22% on an annual basis to TL 4,763 million in the reporting period.



Generating a substantial part of its turnover on fixed rental income as well as from housing sales revenues, our Company minimizes any negative impact resulting from periods of below-projected housing sales or seasonal effects upon its total income owing to the fixed rental income derived.

At the end of the day, İş REIC targets to attain high returns and profitability by capturing the ideal balance between real estate investments producing regular income and those that will yield development profit in line with the conjuncture.

Our projects continue according to plans.

While achieving progress according to plans in its ongoing investments in 2016, our Company also realized property investments for new project developments.

In 2016;

- Construction work and sales continued for our Manzara Adalar and İnistanbul projects.
- The units already sold in Ege Perla project have been delivered.
- Construction work for Ege Perla Shopping Mall was completed and decoration is underway.
- Construction work continued for our İstanbul Financial Center project.
- İşbank Technology and Operation Center project located in Tuzla has been completed, delivered to the Bank, and started operations.

- Our lessee in Tuzla Mixed-Use Project, Türkiye Şişe ve Cam Fabrikaları A.Ş. has fully moved in, and commercial units have been delivered. 100% occupancy has been secured in the office spaces of our project, and rental activities continued for the commercial spaces.
- A new property was purchased in Tuzla, İstanbul for project development purposes.
- The rental process started for the Tower-3 office building included in our portfolio.
- A promise to sell agreement has been signed for purchasing 45% share in the property owned by Tecim Yapı in Kadıköy, İstanbul.

Our roadmap for 2017 and thereafter sets our goals clearly.

Our growth strategy is based in the creation of a stable, efficient and diversified portfolio that will enable distribution of sustainable, high cash dividends to our shareholders, and we are guided by this motivation in all our operations. Our primary goal within the frame of our growth strategy is to bring the ongoing large-scale projects to completion by utilizing financing when necessary so as to avoid any hardships; to sell them, if they are residential projects, and to complete and rent them for income generation, if they are commercial properties, all the while executing both the financing and the investment policy without any disruption. To this

end, increasing our rental income by completing the projects in progress and thereby, creating solid, sustainable resources for financing new projects make up the outlines of our roadmap. İş REIC will move ahead, determined to preserve its competitive superiority that will strengthen its position in the sector with its solid shareholders' equity, sustainable high cash dividend distribution, regular rental income, reasonable borrowing level and diversified portfolio.

Our Company will be making its investments in areas deemed profitable in the year ahead, and will follow up the conjuncture to capitalize on the opportunities that come along at the right time, drawing on its experience and vision.

We will keep working altogether with the goal of carrying İş REIC to an increasingly stronger position, maintaining our focus on creating shareholder value and assuring sustainability. I would like to thank our shareholders, employees, investors, and all our other stakeholders, whose trust and support will back us in our path to success.

Turgay Tanes
CEO

Board of Directors



Levent Korba
Chairman



M. Kemal Fettahoğlu
Vice Chairman



Aysel Tacer
Board Member



Nihat Uzunoğlu
Independent Board Member



Mete Uluyurt
Board Member



D. Sevdil Yıldırım
Independent Board Member



Haluk Büyükbaş
Independent Board Member



Süleyman H. Özcan
Board Member



Murat Doğan
Board Member

Board of Directors

Levent Korba

Chairman

24.03.2016-23.03.2017

Levent Korba received his degree in English language from Buca Faculty of Education at Dokuz Eylül University in 1984. He joined İşbank in 1986 as a Candidate Officer in İzmir Branch. He became an Assistant Section Head in Bornova Branch in 1990, and a Sub-Manager and then Assistant Manager in Karabağlar Branch in 1995 and 1998, respectively. He was brought to the position of Manager of the Samsun Branch in 2002, Çukurova Regional Manager in 2004 and the Head of Branch Network Development Division in 2007. Holding an in-group position in addition to his office as the Chairman of the Board at İş REIC, Mr. Korba serves as Deputy Chief Executive of İşbank since 13 April 2011.

M. Kemal Fettahoğlu

Vice Chairman

24.03.2016-23.03.2017

M. Kemal Fettahoğlu got his degree in economics from the Middle East Technical University in 1990 and joined İşbank the same year as an assistant specialist in the Strategic Planning Department. After pursuing graduate studies in finance in London in 1997-1998, he worked as the Finance Manager and Capital Markets and Asset Management Manager at Petrol Ofisi from 2000 through 2003. He also assumed the responsibility of unit manager of İşbank's Economic Research, Enterprise Architecture and Branch Network Development divisions. Holding an in-group position in addition to his office as the Vice Chairman of the Board at İş REIC, Mr. Fettahoğlu has been serving as the head of İşbank's Construction and Real Estate Management Division since October 2011. Having been a member of İş REIC's Board of Directors since 2012, Mr. Fettahoğlu also holds a seat on the Board of Directors of İş-Altinhas.

Aysel Tacer

Board Member

11.04.2016-23.03.2017

Aysel Tacer received her degree in business administration from Marmara University, Faculty of Economics and Administrative Sciences. She started her career at İşbank as an Officer at Taksim Branch in 1980. Ms. Tacer served as Assistant Section Head and Financial Analyst in the Credit Information and Financial Analysis Department from 1983 to 1989; became Assistant Credit Analyst in 1989 and Assistant Manager in 1993 at Şişli Branch. Between 1996 and 2011, she served as Manager of Akatlar, Çarşı-Bakırköy, Bakırköy, Güneşli and Güneşli Corporate Branches. Ms. Tacer was a member of the Board of Auditors at Tuba Sim İnş. Konsorsiyumu A.Ş. (1994-1996), a member of the Board of Auditors at İş Factoring Finansman Hizmetleri A.Ş. (1999-2001), and a member of the Board of Directors at Camiş Madencilik A.Ş. (2001-2005), at Anadolu Anonim Türk Sigorta Şirketi (2005-2009) and at İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (2009-2011). Ms. Aysel Tacer was elected to İşbank's Board of Directors on 31 March 2011 and on 28 March 2014. She has served as member of the Board of Directors until 21 March 2016, and functioned, in tandem, as a Member of Corporate Social Responsibility Committee and as Alternate Member of the Credit Committee. She retired from İşbank effective 30 June 2015. Ms. Tacer does not hold any in-group positions other than her seat as a Member on the Board of Directors of İş REIC.

D. Sevdil Yıldırım

Independent Board Member

24.03.2016-23.03.2017

D. Sevdil Yıldırım received her degree in business administration from the Middle East Technical University in 1988. She also has master's degrees in economics from the Middle East Technical University and in finance from the London Business School. She worked at Capital Markets Board of Turkey (CMB) in Research and Development, Auditing and Market Supervision departments in 1988-1999. In 1999, she joined

Yapı Kredi Invest where she held the positions of Head of International Capital Markets Department and Assistant General Manager. Ms. Yıldırım worked at Turkish Yatırım and BGC Partners as an Assistant General Manager in 2006 and 2007, respectively. She joined Yıldız Holding A.Ş. in 2009 as Corporate Finance and Capital Markets Coordinator. At Yıldız Holding, Ms. Yıldırım was also involved in the establishment of Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş., where she served as an Assistant General Manager and also as the Investment Committee Member until February 2012. She held vice president positions for Gulf business councils at DEİK (Foreign Economic Relations Board) from 2002 to 2012. She serves as an independent board member at TAV Havalimanları Holding A.Ş., a non-group position, as a board member at KOTEDER, the Association of Listed Companies' Executives whose members include publicly held companies, again a non-group position, and as an independent board member at Denizli Cam San. A.Ş., an in-group position. Ms. Yıldırım has been holding a seat on the Board of Directors of İş REIC since 2012 and she is also the head of Corporate Governance Committee, as well as the member of the Committee for Audit.

Haluk Büyükbaş

Independent Board Member

24.03.2016-23.03.2017

Mr. Haluk Büyükbaş received his BSc and MSc in electrical engineering from the Middle East Technical University, Faculty of Engineering in 1980 and 1983, respectively. He started to work as an Engineer at the Research and Planning Department of the Turkish Electricity Administration, where he functioned as an Engineer, Chief Engineer, and Project Manager in the Transmission Lines and Substations Project Department between 1981 and 1989. Mr. Büyükbaş worked as Department Head at the T.R. Prime Ministry Housing Development Administration from 1989 to 1995, and served as Deputy General Manager of the General Directorate of Public

Finance of the T.R. Prime Ministry Undersecretariat of Treasury between 1995-1997. Mr. Büyükbaş served as Vice President of the T.R. Prime Ministry Privatization Administration between 1997 and 2003, during which time he handled the privatizations of oil and energy companies. He worked as President's Advisor at the Privatization Administration from 2003 until 2005 when he retired from civil service. During his civil service, Mr. Büyükbaş also served as a member on the boards of directors and boards of auditors of various companies including TÜPRAŞ, PETKİM, ERDEMİR and ÇEAŞ. He became Secretary General of the Turkish Contractors Association (TCA) in 2005, a position he still holds. In connection with this post, he has been a Governor at the World Water Council based in Marseille since 2006. Mr. Büyükbaş does not hold an in-group position other than his seat as a Member of the Board of Directors at İş REIC.

Nihat Uzunoğlu
Independent Board Member
24.03.2016-23.03.2017

Mr. Nihat Uzunoğlu received his degree in political sciences from Ankara University in 1981 and started to work as Junior Accountant at the Ministry of Finance the same year. He was appointed to the position of Accountant in 1984, ranking first in his term, and to the position of Chief Accountant in 1991. Mr. Uzunoğlu conducted studies and research on "Self-Regulation Organization in the British Tax System" for one year in the UK, between 1989-1990. On 13 March 1994, he was assigned as the first Director of the Foreign Trade Tax Administration that was just established, in which post he served for 3.5 years. He then served as the Assistant Head of Provincial Treasury of İstanbul from July 1997 to August 2004. Mr. Uzunoğlu was re-appointed to the Tax Inspectors Board as Chief Tax Inspector in August 2004, where he served in various functions including member of the Reading Commission and member of the Advisory Commission. Mr. Uzunoğlu served as the President of the Finance Tax Inspectors Association for four terms between 2005 and 2009,

and retired from civil service in January 2014. He currently offers advisory in tax, insurance and other financial legislation at RSM TR Yeminli Mali Müşavirlik A.Ş. and also provides training activities on tax implementations at the "HUZ ACADEMY", which is a joint institution of the Tax Inspectors Association and Tax Inspectors Foundation. Mr. Uzunoğlu is the author of a two-volume book set titled Herkes İçin Katma Değer Vergisi Kanunu Yorum ve Açıklamaları (Value Added Tax Law Interpreted and Explained for the Layman) published by the Finance Tax Inspectors Association. He does not hold an in-group position other than his seat as a Member of the Board of Directors at İş REIC.

Mete Uluyurt
Board Member
24.03.2016-23.03.2017

Mete Uluyurt graduated from Tarsus American High School in 1989 and from the Department of Economics at Bilkent University in 1994. He started his career on the Board of Internal Auditors of İşbank in 1996. Mr. Uluyurt was appointed as an Assistant Manager to the Budget and Planning Department in 2004. Having pursued his master's studies in business administration at Boğaziçi University in 2005, he worked as Vice Chairman of the Board of Internal Auditors, as Unit Manager in Change Management Department, as Unit Manager in the Department of Strategy and Corporate Performance Management and as Manager of Balmumcu Branch. Holding an in-group position in addition to his seat on the Board of Directors at İş REIC, Mr. Uluyurt is currently working as Department Manager in the Department of Strategy and Corporate Performance Management of İşbank.

Süleyman H. Özcan
Board Member
24.03.2016-23.03.2017

Süleyman H. Özcan got his degree in economics at Boğaziçi University, and started his career as an assistant internal auditor on the Board of Internal Auditors of İşbank in 1993. He was appointed as Assistant Manager in Treasurers

Department in 2001 and then as manager in the same department. He also worked as Unit Manager in Project and Change Management Department and Department of Strategy and Corporate Performance Management respectively and served in various positions at some İşbank subsidiary companies. Holding an in-group position in addition to his seat on the Board of Directors of İş REIC, he has been working as Department Manager in Investor Relations Department since 26 March 2009. He is also a Member of İşbank's Corporate Governance Committee. Mr. Özcan has been serving as a Member of the Board of Directors at İş REIC since 8 December 2014.

Murat Doğan
Board Member
24.03.2016-23.03.2017

Murat Doğan got his degree in industrial engineering from İstanbul Technical University in 2000, and joined İşbank as an assistant specialist in İşbank's Subsidiaries Division. He currently serves as Unit Manager for Real Estate Investments and Healthcare Companies in the division. Holding in-group positions in addition to his seat on the Board of Directors of İş REIC, Mr. Doğan is a Board member at Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş., İş Merkezleri Yönetim ve İşletim A.Ş., Erişim Müşteri Hizmetleri A.Ş., İş-Altınhas İnşaat Taahhüt ve Tic. A.Ş., and Camiş Yatırım Holding A.Ş. Having served as a member of the Company's Committee for Audit from 2010 to 2012, Mr. Doğan has been holding a seat on İş REIC's Board of Directors since 8 December 2014. He is also a member of the Corporate Governance Committee and the Committee for Early Detection of Risk.

Board of Directors

Changes in Management during the Reporting Period

At the General Assembly Meeting held on 24 March 2016, the number of members was increased from 7 to 9, and six Board members who had served previously were re-elected while 3 new members joined the Board of Directors.

Under Article 5 of the Corporate Governance Communiqué, the Company was included in Group 2 Companies for 2016 in view of the assessment made by the CMB taking into consideration the market capitalizations of publicly-held companies depending on their systemic importance and the market prices of their stock in circulation. Within this context, the number of independent members on the Company's new Board of Directors is implemented as 1/3 of the full membership pursuant to Principle no. 4.3.4 of the Corporate Governance Principles. Made up of 9 members, the Board of Directors includes 3 independent members.

Having been elected as a member of the Board of Directors at the General Assembly Meeting held on 24 March 2016, Ms. Filiz Devrim Özdemir resigned from her post on 8 April 2016, and Ms. Aysel Tacer was elected to replace her to serve until the next Ordinary General Assembly Meeting.

Duties and Responsibilities of the Board of Directors

The duties and responsibilities of members of the Board of Directors are spelled out in the Company's articles of association. The Board of Directors is ultimately responsible for the management of the Company and for representing the Company before outside parties. The Board of Directors fulfills the duties incumbent upon it in compliance with the requirements of the Turkish Commercial Law, the Capital Markets Law, and other applicable laws, regulations, and administrative provisions. The Board consists of nine members, three of whom are independent board members.

Operating Principles of the Board of Directors

The Board of Directors conducts its activities within the framework of publicly disclosed operating principles. The Board convenes on such occasions as deemed to be made necessary by the Company's business and affairs upon an invitation by its chairman or his deputy. Under article 13 of the Company's articles of association, it is possible for other members to summon the Board to convene as well.

Board Meetings

A Board of Directors Secretariat has been set up at the Company. This unit is now responsible for and actively involved in organizing Board meetings, preparing and recording reports, documentation, and Board decision, coordinating communication among Board members, and performing similar functions.

The agendas for Board meetings are prepared as recommended by the CEO and with the knowledge of the Board's chairman.

During the reporting period, the Board of Directors convened ten times and passed 80 decisions. All Board members attended all of the Board meetings. All decisions taken by the Board were passed unanimously. No dissenting opinions were expressed in any of the decisions taken during Board meetings. Inasmuch as no votes were cast against any of the decisions that were taken, it was not necessary to make note of any opposition to them in meetings' minutes. No Board member enjoys any special voting rights or has the power to exercise a veto.

Board of Directors Committees

As required both by the Capital Markets Board's corporate governance principles and by the Company's Board of Directors operating principles, there are three committees within the Board: a Corporate Governance Committee, a Committee for Early Detection of Risk, and a Committee for Audit. Each of these committees is headed by an independent board member. As required by law, all of the members of the Committee for Audit are independent Board members. The names and positions of those who serve as heads and members of these committees are presented below.

Corporate Governance Committee		
Head	Member	Member
D. Sevdil Yıldırım Independent Board Member (non-executive)	Murat Doğan (non-executive)	Ayşegül Şahin Kocameşe (executive)

Committee for Early Detection of Risk	
Head	Member
H. Haluk Büyükbaş Independent Board Member (non-executive)	Murat Doğan (non-executive)

Committee for Audit	
Head	Member
Nihat Uzunoğlu Independent Board Member (non-executive)	D. Sevdil Yıldırım Independent Board Member (non-executive)

The Board of Directors consists of nine members, three of whom are independent. Owing to the present structure of the Board of Directors, a Board member may serve on more than one committee. All due consideration is given to the requirements of Corporate Governance Principles when selecting committee members.

Operating principles have been defined and publicly disclosed for each committee. Committees perform their functions within the frame of those principles. During the reporting period and after the conduct of the Company's annual meeting, the duties and responsibilities of Board members were assigned and elections to committee seats were held as required by CMB Corporate Governance Communiqué, which were then publicly announced.

Neither a Nominating Committee nor a Remuneration Committee has been set up under the Board of Directors. The functions of these committees are performed by the Corporate Governance Committee.

External Positions Held by the Members of the Board of Directors

The permission of the General Assembly of Shareholders must be granted in order for the members of the Board of Directors to carry out the transactions specified in Articles 395 and 396 of the TCC. The Board members were granted such permission to engage in the said transactions falling under the scope of the said articles at the General Assembly meeting held on 24 March 2016. Nonetheless, although there are no set rules on Board members' undertaking other duties outside the Company, if they take on an executive role or hold a seat on the board of directors on, or offer consultancy service to, another company, this must not cause a conflict of interest. Also, as a basic principle, independent Board members must act so as to maintain the independence criteria described in the Principles. The in-group/non-group positions held by Board members outside the Company, their years of service in the Company and distribution of positions are provided in the members' résumés.

Disclosure of Company Board Members' Dealings Related to Company's Principal Business Activities or Involving Either the Company or Capital Market Instruments Belonging to the Company

During the reporting period, no member of the Board of Directors was involved in any commercial or financial transaction related to the Company's principal business activities, or entered into any debt relationship with the Company, or was involved in any dealings that involved any capital market instruments belonging to the Company.

Remuneration of the Members of the Board of Directors

Pursuant to Corporate Governance Principles, the remuneration principles for the Board members and executives with administrative responsibility are put into writing and presented for the information of shareholders at the General Assembly.

The Corporate Governance Committee makes recommendations regarding remuneration of the members of the Board of Directors, which is then determined by the General Assembly of Shareholders. The gross value of all remuneration provided to members of the Board of Directors during the reporting period was TL 771 thousand.

Besides the remuneration decided upon by the General Assembly of shareholders, members of the Board of Directors receive no other benefits under such rubrics as "honoraria" or "bonuses" or any similar entitlements. None of the remuneration provided to independent Board members involves any company stock options or any forms of payment linked to the Company's performance.

During the reporting period, the Company did not lend any sums or extend any credit, or made available any loans under the name personal loan through a third party to its Board members or senior managers, nor did it stand guarantee for them such as providing suretyship in their favor.

Board of Directors

Board of Directors' Assessment of the Efficiency of Board of Directors Committees and the Company's Internal Systems

As required by the capital market legislation and other applicable regulations and laws, there are three committees at İş Gayrimenkul Yatırım Ortaklığı A.Ş. (İş REIC): Corporate Governance Committee, Committee for Early Detection of Risk, and Committee for Audit. The Corporate Governance Committee fulfills the functions of the Nominating Committee and Remuneration Committee, which need to be set up under Corporate Governance Principles.

CMB's Corporate Governance Principles were adhered to during the election of the heads and members of the committees. Accordingly;

- Committees are headed by independent Board members,
- All members of the Audit Committee consist of independent Board members,
- The senior executive in charge of the Investor Relations Department serves as a member on the Corporate Governance Committee.

Within the frame of the Board of Directors decision dated 4 April 2016, the Committees formed under the Board of Directors and Committee memberships were publicly disclosed.

When the reports submitted by the Committees to the Board of Directors and advisory decisions passed are examined, it is observed that all of the Committees have efficiently carried out their activities in 2016 within the frame of the espoused operating principles; they have fulfilled their duties and responsibilities set out in the Corporate Governance Principles, and accordingly, the Company's internal systems function efficiently. Through their activities, the committees contributed to the activities of the Board of Directors, and the Company furthered its compliance with corporate governance practices.

Corporate Governance Committee

Corporate Governance Committee, which regularly reviews the Company's corporate governance practices, paid attention to meet prior to each Board meeting in principle. The Committee met 14 times during the reporting period. While priority is given to discussing the topics on the agenda in the Committee meetings, the Investor Relations Department's activities during the year, its determinations and evaluations were also addressed, and as such, the Committee fulfilled its function as a bridge between shareholders and the Board of Directors. Decisions adopted in Committee meetings, and the presentations on the topics discussed in meetings were shared with the Board of Directors after the Committee meetings.

The Corporate Governance Committee closely monitors the regulations and requirements regarding corporate governance principles. Within the scope of the activities during the reporting period aimed at furthering the Company's compliance with the principles, the Committee:

- Took the necessary steps to make sure that the Company is in compliance with the applicable requirements, and especially with the Corporate Governance Principles Communiqué,
- Fulfilled the functions of the Nominating Committee and Remuneration Committee,
- Actively engaged in the corporate governance rating process of the Company together with the Investor Relations Department.

When carrying out these activities, the Corporate Governance Committee adopted advisory decisions to be presented to the Board of Directors regarding the matters for which the Board of Directors needed to take action.

Committee for Early Detection of Risk

The Committee for Early Detection of Risk, which has been set up to early detect the risks that may threaten the Company's existence, development and survival, to take necessary action for identified risks, and to manage risks in accordance with the CMB's rules and regulations concerning corporate governance, and the relevant provisions of the TCC, held seven meetings during the reporting period.

Within the frame of the review of the Company's risk management systems, the Committee submitted the following to the Board of Directors;

- A quarterly Company Risk Report covering basic risk types in relation to the Company's activities with a particular focus on operational risk, liquidity risk, credit risk and market risk, which is prepared by the Risk Unit within the knowledge of the Committee for Early Detection of Risk,
- A bimonthly Committee for Early Detection of Risk Report, which is prepared by the Committee for Early Detection of Risk so as to cover risk management and early detection of risk pursuant to article 378 of the TCC.

Additionally, the Committee reviewed the risk-related arrangements in view of the Company's changing needs during the reporting period, and in this frame, the Company Risk Policy covering basic types of risks and the Risk Catalogue covering the descriptions and examples of types of risks were updated.

Through the reports issued and activities carried out during the reporting period, the Committee played an active role in the identification and analysis of important risks inherent in the Company's operations, ensured that necessary information was provided to the Board of Directors with respect to monitoring the risk limits, and increased the efficiency of the Company's risk systems.

Committee for Audit

The Committee for Audit reports to the Board of Directors and carries out its activities in accordance with the "Operating Principles of the Committee for Audit". The Committee ensures the auditing and supervision of proper execution of financial and operational activities, and carries on with its activities in relation to public disclosure of the Company's financial statements, execution of independent audits, ensuring effective operation of the Company's internal systems, and active supervision of all other aspects of the independent auditors' activities. The Committee held four meetings during the reporting period.

In parallel with its duties set forth in the operating principles, the Committee for Audit, during the reporting period;

- Oversaw the independent audit process including conformity of all aspects of the independent auditor's activities and the interim and annual financial reports drawn up to the accounting principles pursued by the Company, as well as their accuracy and fairness,
- Monitored the determination of the annual activity plan of the Company's Audit Group and execution of audit activities in accordance with the plan, and received information about audit activities in periodic meetings,
- Provided the necessary coordination for sharing the findings identified within the scope of audit activities with the Board of Directors and the Company's senior management, and for ensuring that necessary measures are adopted.

Within this scope, the Committee for Audit reviewed the operation of the Company's internal systems, contributed to the betterment of processes that presented room for improvement, and effectively carried out audit activities.

Senior Management



Turgay Tanes
CEO



Hülya Demir
Senior Head of Project and
Construction Management
Coordination



T. Aydan Ormanci
Senior Head of Project Development
& Feasibilities and Real Estate
Investments Coordination



Ömer Barlas Ülkü
Head of Financial Management Group



K. Sertaç Seviner
Head of Audit Group

**Av. Pınar Ersin Kollu, LL.M**

Head of Legal Counseling and Human Resources & Education Group

**Ayşegül Şahin Kocameşe**

Head of Investor Relations & Corporate Compliance and Risk Management Group

**Gülfem Sena Tandoğan**

Head of Corporate Communications, Sales, Leasing and Marketing Group

**Bülent Otuz**

Electrical and Mechanical Projects Coordinator

**Gökhan Temel**

Constructional Projects Coordinator

**Kaan Özsoy**

Architectural Projects Coordinator

Senior Management

Turgay Tanes CEO

Turgay Tanes graduated from the Department of Public Administration of the Faculty of Economics and Administrative Sciences at Gazi University in 1987. He started his career at İşbank as an assistant inspector on the Board of Inspectors in 1988. He became an assistant manager in the Subsidiaries Division in 1996 and worked as a group manager of Real Estate and Glass Sector Companies from 1999 to 2004 in the same division. Serving as the CEO of İş Real Estate Investment Company since 2004, Mr. Tanes also functions as the chairman of one of the subsidiaries of İşbank.

Hülya Demir

Senior Head of Project and Construction Management Coordination

Hülya Demir graduated from the Faculty of Architecture at İstanbul Technical University in 1982, and received her master's degree from the same faculty in 1984. She started her career in 1983 as a project architect at EPA Architecture and worked as an architect and chief architect for Architectural Project Design and Implementation at İşbank Construction and Real Estate Division from 1985 to 1994. She was in charge of the project and construction management and coordination for İş Towers first as an assistant manager and then as a group head from 1994 until 2001. Hülya Demir joined İş REIC in 2001 as Assistant General Manager and currently functions as the Senior Head of Project and Construction Management Coordination.

T. Aydan Ormancı

Senior Head of Project Development & Feasibilities and Real Estate Investments Coordination

T. Aydan Ormancı got her degree in civil engineering from the Middle East Technical University in 1990; she also holds a master's degree from the Graduate School of Science Engineering and Technology. Mrs. Ormancı started her career in 1991 as a project engineer at STFA Mühendislik A.Ş. In 1993, she joined 3M İnşaat A.Ş. as Technical Office Assistant Manager. From 1995 to 2000, she worked as an assistant manager and manager at Project and Sales Departments at Gök İnşaat A.Ş. She began functioning as an assistant manager at the Investment and Project Development Department at İş REIC in 2000, where she was promoted to manager in 2001 and to Assistant General Manager in 2007. Mrs. Ormancı currently serves as Senior Head of Project Development & Feasibilities and Real Estate Investments Coordination.

Atty. Pinar Ersin Kollu LL.M.

Head of Legal Counseling and Human Resources & Education Group

Pinar Ersin Kollu graduated from the Faculty of Law at İstanbul University in 1994 and got her LL.M. degree in Business Law from İstanbul Bilgi University. Ms. Kollu completed her legal internship in 1995 and was enrolled with the İstanbul Bar Association. She began her career as a lawyer at BEDAŞ in 1996, and joined İş REIC in 2000, where she set up the Company's Legal Counseling, Human Resources and Education Departments. She serves as a member of the Board of Directors of Kanyon Yönetim, İşletim ve Pazarlama A.Ş. She speaks English and holds a Human Resources Manager Certificate and Adler Coaching Certificate Accredited by the International Coaching Federation.

Ms. Kollu works as a coach and mentor in various social responsibility projects. Lecturing on the Legal Aspects of Real Estate Investments at GYODER Academy and Bahçeşehir University's MBA in Real Estate Program, Ms. Kollu currently serves as the Head of Legal Counseling and Human Resources & Education Group.

Ayşegül Şahin Kocameşe

Head of Investor Relations & Corporate Compliance and Risk Management Group

Ayşegül Şahin Kocameşe got her bachelor's degree in political science and public administration from the Middle East Technical University in 1998 and got her Executive MBA degree from İstanbul Technical University. She holds CMA Advanced Level License from the Capital Markets Board, Credit Rating Expert License, and Corporate Governance Rating Expert License, as well as a Real Estate Appraiser License. She began her career as an investment specialist assistant at İşbank in 1998. She joined İş REIC in 1999 and personally worked in the incorporation and IPO of the Company. Upon establishment of the Risk Management and Investor Relations Department in 2005, she was brought to the position of manager in this unit. Ms. Kocameşe currently functions as the head of Investor Relations & Corporate Compliance and Risk Management Group.

Ms. Kocameşe also serves as a member on the Corporate Governance Committee.

Gülfem Sena Tandoğan**Head of Corporate Communications,
Sales, Leasing and Marketing Group**

Gülfem Sena Tandoğan got her bachelor's degree in labor economics and industrial relations from the Faculty of Political Sciences at Ankara University in 2001 and Executive MBA from Boğaziçi University. She began her career as an assistant product manager in a pharmaceuticals company in 2001. She started working at the Marketing Department of İş REIC in 2003 and functioned as a specialist at the Risk Management and Investor Relations Department from 2005 until 2007. She was involved in the establishment of the Corporate Communications and Marketing Department in 2007. Ms. Tandoğan is currently the Head of Corporate Communications, Sales, Leasing and Marketing Group.

Ömer Barlas Ülkü**Head of Financial Management Group**

Ömer Barlas Ülkü received his bachelor's degree in civil engineering from the Middle East Technical University in 1995 and his MBA from the Faculty of Economic and Administrative Sciences at the same university. Mr. Ülkü started his career as a research assistant in the Department of Civil Engineering at METU (1995-1997) in tandem with his graduate studies. He functioned as an inspector on İşbank's Board of Inspectors from 2000 to 2008, and as the Internal Audit and Control Manager of our Company from 2008 to 2012, while he was also part of the process to set up the said department. Mr. Ülkü was involved in the establishment of the Financial Management Department in July 2012, and currently serves as the Head of the Financial Management Group.

K. Sertaç Seviner**Head of Audit Group**

K. Sertaç Seviner graduated from the Department of Economics, Faculty of Economic and Administrative Sciences at the Middle East Technical University in 2000. He joined İşbank in 2001 as an assistant inspector trainee on the Board of Inspectors, and was appointed as an assistant manager in the Retail Loans Monitoring and Recovery Division in 2010. Mr. Seviner was brought to the position of the Head of Audit Group of İş REIC in December 2012.

Bülent Otuz**Electrical and Mechanical Projects
Coordinator**

Bülent Otuz received his bachelor's degree in 1983 and his master's degree in 1986 in electrical and electronics engineering from the Middle East Technical University. He functioned as a chief engineer at TEK (Turkish Electricity Authority) Power Plants Department from 1984 to 1988. Having worked in İşbank's Construction and Real Estate Management Division from 1988 to 2001, he was in charge of the design and implementation of electrical works in İş Towers from 1996 through 2001. Having joined İş REIC in 2001, Mr. Otuz, who is also a Real Estate Appraiser, currently serves as Electrical and Mechanical Projects Coordinator at İş REIC.

Gökhan Temel**Constructional Projects Coordinator**

Gökhan Temel graduated from the Department of Civil Engineering at İstanbul Technical University in 1988. He started his career in 1988 as a supervising engineer in the construction of the Kınalı-Sakarya Highway undertaken by ENET-ARUP-DCI Joint Venture. He worked as a civil engineer in İşbank's Construction and Real Estate Management Division from 1991 to 1993. He functioned first as a supervising engineer and then as a chief engineer in the construction of İş Bank's Head Office Building from 1993 through 2001. He joined İş REIC in 2001 as a chief engineer, and later assumed the positions of Project Implementation Assistant Manager and then Project Implementation Manager. Mr. Temel, who is also a Real Estate Appraiser, currently serves as the Constructional Projects Coordinator at İş REIC.

Kaan Özsoy**Architectural Projects Coordinator**

Kaan Özsoy received his degree in architecture from the Faculty of Architecture at Yıldız Technical University in 1992. He started his career as an architect in the construction of İşbank Head Office Building in 1994 and functioned as a supervising architect until 2001. Having joined İş REIC as an architect in 2001, Kaan Özsoy was later promoted, in chronological order, to Chief Architect, Project Implementation Assistant Manager and Project Implementation Manager. Mr. Özsoy, who is also a Real Estate Appraiser, currently serves as the Architectural Projects Coordinator at İş REIC.

Declaration of Interest by Independent Board Members

To: Chairman of the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş.

Owing to my candidacy for a seat as an Independent Board Member at your Company's ("the Company") General Assembly Meeting, I hereby declare:

a) Neither I, nor my spouse, nor any relative of mine whether by blood or by marriage unto the second degree, have, within the most recent five years, entered into any employment relationship in an executive capacity involving major duties and responsibilities, collectively or individually held more than 5% of the capital or voting rights or privileged shares in, or established any commercial interest of a significant nature, with the Company, or with any companies in which the Company has management control or material influence, and with any shareholders having management control or material influence over the Company, or with any corporate entity which are controlled by these shareholders;

b) Within the most recent five years, I have neither been a shareholder controlling 5% or higher share, or an employee in an executive position involving major duties and responsibilities nor a board member, in any company from/to which the Company purchases/sells significant amount of services or products under the agreements made during such time when services or products were purchased or sold, and particularly in companies involved in the Company's auditing, rating, or consulting;

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member;

d) If elected, I shall not work on full-time basis at any public institution or organization during my term of office, apart from serving as a faculty member, provided that the same does not contradict with the legislation governing such institution;

e) I am a resident of Turkey for the purposes of the Income Tax Law;

f) I possess the ethical standards and professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any conflicts of interest that may arise between the Company and its shareholders, and to come to decisions freely taking into consideration all stakeholders' rights;

g) I am capable of devoting sufficient amount of time to follow-up the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking;

h) I have not served as a member on the Company's Board of Directors for more than six years within the most recent ten years;

i) I am not serving as an independent board member in more than three of the companies in which the Company, or shareholders having management control over the Company, have management control, or in more than five companies, in the aggregate, traded on the stock exchange;

j) I have not been registered and promulgated on behalf of the corporate entity elected as a member of the Board of Directors.



D. Sevdil Yıldırım
Independent Board Member

To: Chairman of the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş.

Owing to my candidacy for a seat as an Independent Board Member at your Company's ("the Company") General Assembly Meeting, I hereby declare:

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b) Within the most recent five years, I have neither been a shareholder controlling 5% or higher share, or an employee in an executive position involving major duties and responsibilities nor a board member, in any company from/to which the Company purchases/sells significant amount of services or products under the agreements made during such time when services or products were purchased or sold, and particularly in companies involved in the Company's auditing, rating, or consulting;

c) I possess the professional education, knowledge and experience for due performance of the duties I will assume in connection with being an independent board member;

d) If elected, I shall not work on full-time basis at any public institution or organization during my term of office, apart from serving as a faculty member, provided that the same does not contradict with the legislation governing such institution;

e) I am a resident of Turkey for the purposes of the Income Tax Law;

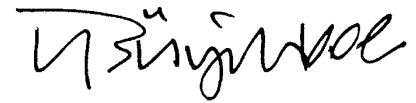
f) I possess the ethical standards and professional repute and experience sufficient to enable me to make a positive contribution to the Company's affairs, to maintain my impartiality in any conflicts of interest that may arise between the Company and its shareholders, and to come to decisions freely taking into consideration all stakeholders' rights;

g) I am capable of devoting sufficient amount of time to follow-up the conduct of the Company's activities and to fully satisfy the requirements of the duties I will be undertaking;

h) I have not served as a member on the Company's Board of Directors for more than six years within the most recent ten years;

i) I am not serving as an independent board member in more than three of the companies in which the Company, or shareholders having management control over the Company, have management control, or in more than five companies, in the aggregate, traded on the stock exchange;

j) I have not been registered and promulgated on behalf of the corporate entity elected as a member of the Board of Directors.



Haluk Büyükbaş
Independent Board Member

Declaration of Interest by Independent Board Members

To: Chairman of the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı A.Ş.

Owing to my candidacy for a seat as an Independent Board Member at your Company's ("the Company") General Assembly Meeting, I hereby declare:

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b) Within the most recent five years, I have neither been a shareholder controlling 5% or higher share, or an employee in an executive position involving major duties and responsibilities nor a board member, in any company from/to which the Company purchases/sells significant amount of services or products under the agreements made during such time when services or products were purchased or sold, and particularly in companies involved in the Company's auditing, rating, or consulting;

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j) I have not been registered and promulgated on behalf of the corporate entity elected as a member of the Board of Directors.



Nihat Uzunoğlu
Independent Board Member

Consultancy, Auditing, Rating and Appraisal Services

Tax Consultants

PwC Yeminli Mali Müşavirlik A.Ş.

Independent Auditors

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (Member of KPMG International)

Corporate Governance Principles Compliance Rating Agency

Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş.

Credit Rating Agency

Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş.

Real Estate Appraisal Firms from Which Services Were Procured in 2016

Reel Gayrimenkul Değerleme A.Ş.

Nova Taşınmaz Değerleme ve Danışmanlık A.Ş.

Terra Gayrimenkul Değerleme ve Danışmanlık A.Ş.

Disclosure of Any Conflicts of Interest Between the Company and Its Service Providers

In the selection of its service providers, the Company complies with applicable capital market regulations and takes all due care to prevent potential conflicts of interest.

There were no conflicts of interest between the Company and the service providers identified above either during the course of service procurement or subsequently.



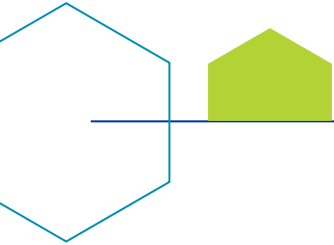
The epitome of everything beautiful about İzmir

The first mixed-use project in the area, Ege Perla is designed to fit the traditional lifestyle in the city. Inspired by old İzmir buildings, the project's conceptual design bears the signature of the worldwide renowned architect Emre Arolat.





Real Estate Sector in 2016



In 2016, the construction industry outperformed the overall economy and a number of other sectors. Public investments and the urban renewal process have backed the construction industry in driving growth.

Within the frame of the revision made by the Turkish Statistical Institute to national income, the national income computation now includes construction industry activities, which previously remained unrecorded. Hence, construction industry growth rates were revised, resulting in its increased share within national income.

While growth rates in the first and second quarters of the year were 5.1% and 15.7% respectively, growth lost pace in the third quarter and declined to 1.4%. Hence, the construction industry expanded by 7.4% over the first nine months of the year (first 3 quarters of 2015: 4.9%). The growth is estimated to be in the order of 5-6% for the whole year.

In 2015, the ratio of the construction industry within national income went up from 4.4% to 8.2% following the revision on the basis of current prices. This ratio is estimated to be 8.5% in 2016.

In the real estate sector, on the other hand, growth rates were 4.3%, 5.2% and 3.7% in the first, second and third quarters of 2016, respectively. The real estate sector expanded by 4.4% through the first nine months of the year (first nine months of 2015: 2.4%).

The decline witnessed in October and November in the existing construction projects continued at an increasing speed in December. While existing projects slid down at a higher pace due

to seasonality effect, overall market conditions acted as another factor causing reduction in projects. The level of existing construction projects in December was 11.0 points below than that in December 2015.

The decline gained pace also in new undertakings due to seasonality effect, and the level in December was 4.5 points below what it was in the previous year.

In the last quarter of 2016, the building construction cost index (BCCI) picked up by 5.9% over the previous quarter, by 12.4% year-to-year, and by 7.7% on the basis of the average of four quarters.

According to BCCI, while labor costs index was up 1.1% and materials costs index by 7.5% in the fourth quarter on a quarterly basis, these figures were 10.6% and 12.9% higher year-to-year respectively.

Housing Market

Total number of building permits issued in the first nine months of 2016 went up by 8.1% on the basis of the number of flats. During the same period, the number of flats issued with use and occupancy permits declined by 3.3%.

There was a 6% rise in building permits in housing units in terms of the area of structures and the number of flats. The same slackened by 4% in non-residential buildings. Within this context, the housing construction projects are anticipated to continue at an increasing ratio during 2017. However, investments in non-residential projects will lose momentum.

The campaigns launched in the last four months of the reporting period significantly drove housing sales, and 2016 thus ended as a new record year.

In 2016, housing sales went up 4.2% year-to-year to reach 1,341,453 units.

Covering 68 cities in their entirety in Turkey, Turkey Housing Prices Index (TR-68) was up by 0.81% on a monthly basis in December, and by 9.11% year-to-year.

According to the REIDIN-GYODER New Home Price Index, there was a rise by 0.47% in November on a monthly basis, and by 2.94% on an annual basis, while the rise was 71.60% since January 2010 when the index was launched. The highest increase in the new home price index in the past one year occurred in the one-bedroom type with 0.87%.

The REIDIN-GYODER New Home Price Index showed 9.5 points higher increase in branded housing projects on the Asian side of the city than on the European side since the start of the index.

When looking at the housing loans for 2016, it will be more meaningful to evaluate the first 7 months of the year and the months thereafter separately. While the number of housing units purchased on mortgage loans slackened in the January-July period on a year-to-year basis, there was a significant rise in the August-December 2016 period on an annual basis, which was driven by the rate cuts initiated as of August and the campaigns organized by the sector's actors.

Averaging 1.18% in the first half of the year, the housing loan rates of the sector decreased remarkably from August, going down to 0.90% in 120-month loans, i.e. the most preferred term, and to 0.80% in loans with short-terms up to 36 months.

In 2016, the construction industry outperformed the overall economy and a number of other sectors. Public investments and the urban renewal process have backed the construction industry in driving growth.

Office Market

An overview of the last quarter of 2016 in İstanbul Class-A office market reveals the following:

Regional distribution of office stocks in İstanbul shows that the areas with the highest Class-A office stock are CBD (32%), Ümraniye (17%), Maslak (15%), and Kozyatağı/Ataşehir (14%). Total office stock in these four regions corresponds to 78% of the overall stock in İstanbul.

While Kavacık area hosts the lowest stock with 4%, the remaining three areas, namely Kağıthane/Cendere, İstanbul West and İstanbul East, make up the remaining 18% of İstanbul with ratios ranging between 5% to 8%.

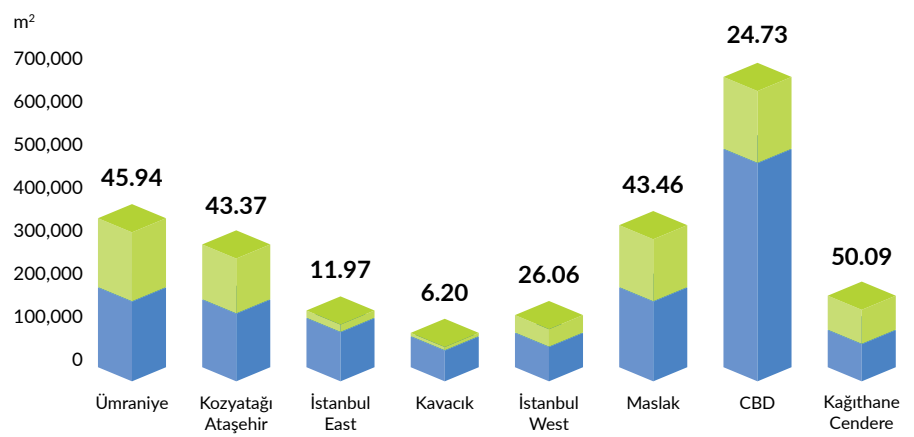
In the last quarter of 2016, average vacancy rates of Class-A offices on the European side increased by 6.1 percentage points to 33.34%, and on the Asian side, the same went up by 12.6 percentage points to 36.73%.

The vacancy rates picked up in the last quarter of 2016 in all areas apart from İstanbul East and Kağıthane/Cendere. While the primary reason behind the higher vacancy rates was the reclassification of relatively cheaper structures under Class B, other reasons include considerably slower rentals and the existence of new buildings included in Class-A office stock.

Distribution of Class A and B office stock on the European and Asian Sides of İstanbul

	European Side	Asian Side	Total
A	1,250,464	811,460	2,061,924
B	853,637	255,663	1,109,300

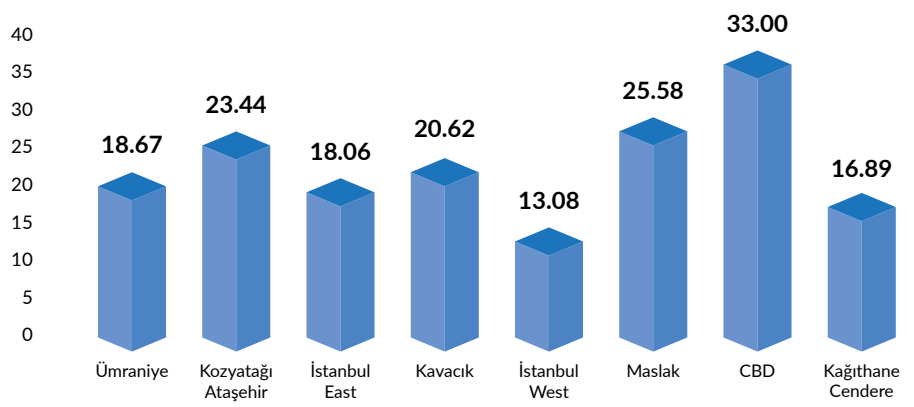
İstanbul Office Market Average Vacancy Rates (Class A/Q4) (%)



Source: Colliers International

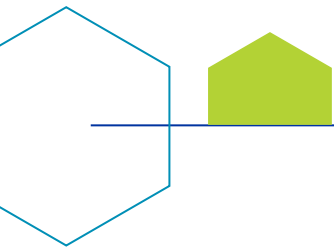
■ Occupied Space ■ Vacant Space

Average Class A Office Property Rents in İstanbul (USD/m²/month)



Source: Colliers International

Real Estate Sector in 2016



Average rental fees of Class-A office properties on the European side increased from 28.71 USD/m²/month in the third quarter of 2016 to 29.29 USD/m²/month in the fourth quarter of the year, and of those on the Asian side from 20.71 USD/m²/month to 20.91 USD/m²/month over the same timeframe.

Approximately 1,101,459 m² of office stock that will be put on the market in the next two years on Asian and European sides are currently in construction and planning phases. A look at the distribution of the additional office stock reveals that there will be equal supply on the Asian side and on the European side.

A substantial portion of the near-future office stock is situated in newly developing, alternative regions such as Kozyatağı/Ataşehir and Kağıthane/Cendere. These two alternative regions are followed by the CBD.

Retail Market

As at the third quarter of 2016, there were 353 shopping malls operating across Turkey, all of which presented a gross leasable area (GLA) of 10,765,259 m². The GLA is anticipated to go up to 11,050,000 m² by the end of 2016 with the opening of 13 new shopping malls in a total of nine cities. The sum of leasable areas in İstanbul and Ankara that make up 26% of the total population represents 52% of the combined GLA in Turkey.

Bolu ranks first with 303 m² based on GLA per 1,000 inhabitants.

Bolu is followed by İstanbul with 282 m² and by Ankara with 270 m². On the other hand, İzmir, the third biggest city in Turkey, ranks 17th. GLA for 1,000 inhabitants averages 137 m² throughout Turkey.

Including the imminent stock, GLA of shopping malls is projected to reach 13,050,000 m² by the end of 2019.

Based on December 2016 results of the SC Index co-developed by the Council of Shopping Centers - Turkey (AYD) and Akademetre Research Company, the SC Turnover Index went up by 6.7% nominally on an annual basis in 2016 and reached 239 points. The extraordinary circumstances that gripped Turkey negatively affected the number of SC visitors and SC turnovers. However, the uptrend adopted by the turnover index starting from September 2016 indicates that the rising trend of the turnovers will persist.

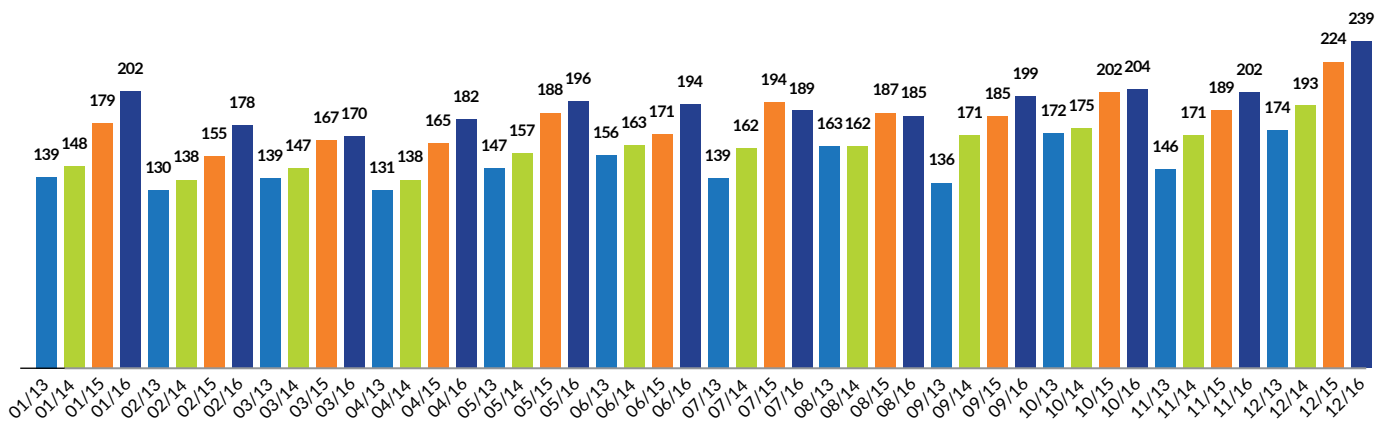
Productivity per leasable square meter (m²) in shopping centers kept going up and was registered as TL 1,072 in İstanbul and as TL 806 in Ankara in December 2016. In the same period, productivity per square meter across Turkey was TL 913. Productivity per leasable area (m²) in shopping malls was registered as TL 744 for 2016.

The number of SC visits was down by 1.9% in 2016, and stood at 102 points.

Sources: Colliers International, Association of Turkish Construction Material Producers (IMSAD), Turkish Contractors Association (TMB), TurkSTAT, REIDIN, Association of Real Estate and Real Estate Investment Companies (GYODER), Council of Shopping Centers-Turkey (AYD)

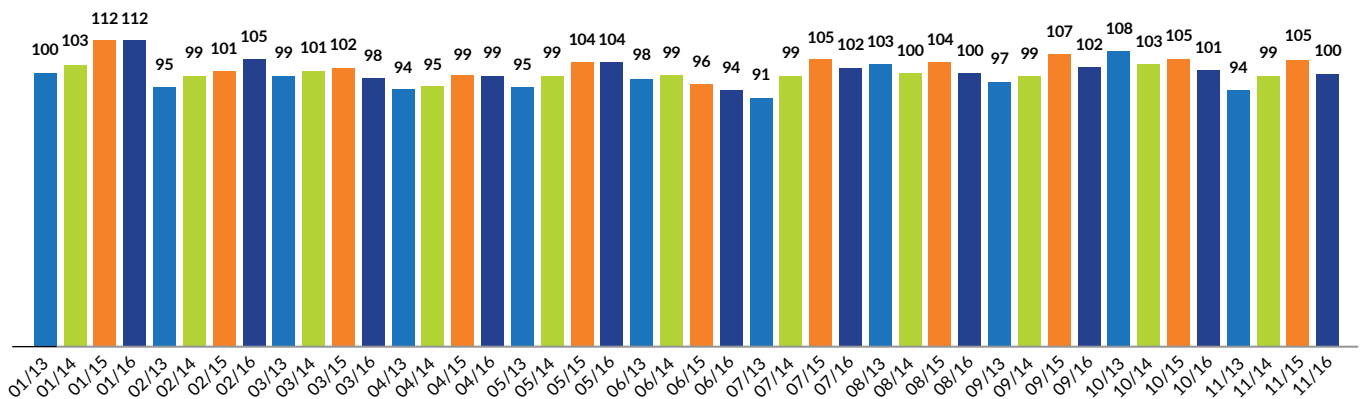
The GLA in Turkey is anticipated to go up to 11,050,000 m² by the end of 2016 with the opening of 13 new shopping malls in a total of nine cities.

Turnover Index (General)



Source: Council of Shopping Centers (AYD)

Visitor Numbers Index



Source: Council of Shopping Centers (AYD)

Board of Directors Activities in 2016



Stable growth target

In 2016, İş REIC gave priority to bring its ongoing investments to completion within the projected timelines, to capitalize on investment opportunities, and to capture the targeted lease and sales figures.

Our Company preserved its stable growth target in 2016, and gave priority to bring its ongoing investments to completion within the projected timelines, to capitalize on investment opportunities, and to capture the targeted lease and sales figures in line with its strategic plans. During the reporting period, the Company kept a close eye on new project and real estate opportunities that will secure growth and revenue increase, and carried on with its efforts throughout the year.

During 2016:

- T. İş Bankası A.Ş. and Türkiye Şişe ve Cam Fabrikaları A.Ş. began conducting business in our projects in Tuzla;
- Sales and construction activities went on for our projects in Kartal, İzmir and Topkapı;
- Work continued in accordance with our construction program simultaneously with other companies in our İstanbul Financial Center project;
- A promise to sell agreement was signed for including the Kadıköy plot in our portfolio, whereas Tuzla plot was included in the portfolio in line with the new investments.

Its location has turned Tuzla and environs, where numerous companies are relocating their head offices and operations departments, into a very valuable district with respect to living and investing. The extension of the

subway network on the Asian side to Tuzla by İstanbul Metropolitan Municipality is important not only for Tuzla but for the whole of İstanbul and the proximity of the district to Sabiha Gökçen Airport is yet another plus. The rapid increase in the investments being made by the private sector and by the local administration alike played a big part in the development of Tuzla, transforming the area into a field of attraction.

Having accurately foreseen the area's inherent growth potential years ago and having quickly steered its investments accordingly, İş REIC developed "Tuzla Technology and Operation Center" and the "Tuzla Mixed-Use Project" covering office and commercial spaces on two adjacent plots in the locality on a total construction area of 277,704 m². The architectural design of the projects is the result of a collaboration between the world-famous SOM (Skidmore, Owings & Merrill LLP) and Design Group. After the Çınarlı Bahçe project that was put into life in 2013, İş REIC brought both projects to completion at the end of 2015 in Tuzla, which the Company believes to possess a high growth potential. Moreover, the Company purchased the 62,655 m² parcel owned by Alamsaş Alarko Ağır Makina Sanayi A.Ş. and the real property on it for project development purposes during 2016. The work for the new project is planned to be initiated within 2017.



İşbank Technology and Operation Center Project

Designed and constructed to cater to the needs of İşbank, the Technology and Operation Center project was completed in 2015 and delivered by early 2016. Developed on turnkey investment model, the project was leased to İşbank for 25 years, and the Bank started conducting business in the premises in the month it was delivered. Based on the lease, the Company generated a rental income of TL 61.5 million + VAT on the entirety of the Technology and Operation Center in 2016. The total development cost of the two projects including the financing cost amounted to approximately TL 750 million.

Set on an area of 44,400 m², the Technology and Operation Center project houses an information technology and data-storage unit, training facilities, and accommodations for employees attending the training programs.

The project received an award in the "Best Office" category at the Sign of the City Awards 2015 organized by Hürriyet Newspaper.

İstanbul Tuzla Mixed-Use Project

Tuzla Mixed-Use Project is located on the adjacent parcel to İşbank Technology and Operation Center.

Developed on a 21,300 m² plot and consisting of office and commercial spaces, the project was completed

at the end of 2015. Upon receipt of the use and occupancy permit of the project, which had a total development cost of approximately TL 220 million, delivery of commercial units took place in December 2015. All of the office spaces and part of the commercial spaces are leased to Türkiye Şişe ve Cam Fabrikaları A.Ş., which fully relocated to Tuzla during 2016.

The activities are underway to rent out the independent sections in Meydan Çarşı Shopping Mall and the gross annual rental income projected to be derived on the entire project is around TL 16-17 million.

İzmir Ege Perla Project

Rising in the "New City Center" of İzmir's Konak district and in the best part of the Gulf of İzmir, Ege Perla is situated at the junction of the four road corridors of the city and offers great ease of transport owing to its location. The project consists of residences of different types and sizes ranging from studios to 5+1 units commanding a view of the Gulf of İzmir, home offices and spacious offices, as well as a shopping mall with an approximate leasable area of 23,500 m², which is set to host up-market stores and shops with its semi-open air architecture.

The first mixed-use project with an investment cost of TL 450 million and redefining the area, Ege Perla is composed to accommodate both traditional and modern lifestyles. Inspired by the old İzmir houses, the

project is designed by world-renowned architect Emre Arolat. Delivery of sold units began in June 2016. The turnover expected to be generated on the sales of the residences and offices covered in the project is approximately TL 270-280 million, excluding VAT.

The construction of the shopping mall in the project has been brought to completion and decoration is in progress. While the shopping mall is slated for becoming operational in spring 2017, efforts for hiring it out continued during the reporting period via CEFIC, a firm engaged for managing the leasing work. It is targeted to create a tenant mix and concept with a focus on the needs and expectations of İzmir and its local people at the Ege Perla shopping mall, which is a magnet for numerous domestic and international brands as well as the local ones in İzmir. The mall is envisaged as a true city park with its architecture, brand mix and commercial spaces, and a spot frequented by people of all ages as the first representative of innovations in the area. The Company's subsidiary, Kanyon Yönetim İşletim ve Pazarlama A.Ş. will undertake the management and operation of Ege Perla Shopping Center.

İstanbul Kartal Manzara Adalar Project

One of the nicest and most valuable locations on the Asian side, Kartal district enjoys a constantly growing attraction owing to new additions to the urban renewal projects and

Board of Directors Activities in 2016



commercial districts, as well as the availability of transportation means. Enjoying greater integration with the European side upon completion of Marmaray, Kartal has recently gained prominence as a district with the subway project along with the 3rd bridge. It is designated among İstanbul's up-and-coming districts promising viable investment opportunities.

Having accurately predicted the district's development potential, İş REIC is developing the Manzara Adalar project in Kartal, which is forecasted to have a total investment value of nearly TL 620-640 million excluding development cost. Designed by the world-famous architecture firm Perkins Eastman, Manzara Adalar is a mixed-use project comprising three residential blocks, two office blocks and the commercial spaces that will complement this life center. With the building permit obtained in September 2014, the construction work of the project continued throughout 2016, and nearly 40% thereof has been completed. Being realized on the basis of revenue sharing scheme, the project is forecasted to yield a sales revenue of nearly TL 740 million on the sales of housing units and a rental income of approximately TL 38-42 million after office and commercial spaces are fully rented out, including the former landowner's share.

60% of the project was sold as at year-end 2016, which is situated within 1.5 km distance to the seaside and rising to

a dazzling view of the islands. Manzara Adalar project is situated centrally, at the heart of the road, rail, air and sea transportation networks. Comprising different apartment types ranging from studio apartments to 5+1 flats, the project promises a calm and pleasant life with its indoor/outdoor swimming pool, outdoor kids' pool, walking paths, fitness center and SPA, hobby rooms, kids club and multi-purpose sports complex.

Having received the "Best High-Rise Residential Project" award at the Sign of the City 2016 awards, Manzara Adalar was named the Premium Project in the "Best Mixed-Use Project" and "Best Residence" categories.

İstanbul İstanbul Project

Within the scope of the cooperation between İş REIC and Timur Gayrimenkul (Nef), project development continues on the plot located in Zeytinburnu district, one of the longest-established residential areas in İstanbul, and equally owned by the two companies. The world's leading creative architecture firm Perkins & Will has been engaged for the project developed on the 80,000 m² plot. With the construction work in progress, the project is just 100 meters from the subway station and has direct access to tram and metrobus lines. The project is differentiated with its proximity to the city's central districts such as Zincirlikuyu, Çağlayan, Yenikapı, Bakırköy, Ataköy and Atatürk Airport.

Easily reached from all parts of the city, İstanbul İstanbul Project stands out with 2,740 units ranging from studios to 4+1 flats, rich mix of social facilities, green areas and advantageous payment options. Comprising residential units and a small number of commercial spaces, the project also incorporates Nef's proprietary Foldhome system. TL 1.5-1.6 billion in total is targeted to be generated on the sales of the residence and commercial spaces included in İstanbul built as four different projects, and the forecasted project development cost excluding financing is TL 1.1-1.2 billion. With deliveries scheduled to start from 2018, nearly 85% of the project has been sold.

İstanbul İstanbul project was a finalist in the "Best High-Rise Residence", "Best Marketing Campaign" and "Best Architectural Design Concept" categories and was awarded in the "Best Architectural Design Concept" category at the Sign of the City Awards organized by Hürriyet Newspaper.

İstanbul International Financial Center Project

Being developed at the heart of the İstanbul International Financial Center (IFC) that was presented as one of the most remarkable projects of late, the project consists of office and commercial spaces. With the construction work in progress, the project is targeted to be completed concurrently with the projects taking



place in the IFC and undertaken by other companies. Having a construction area of approximately 70,000 m² and a leasable area of approximately 33,000 m², the mixed-use project's total development cost, including the plot and excluding financing, is forecasted around TL 260-280 million.

Other Developments in 2016

A promise to sell agreement was executed in 2016 for purchasing 45% share in the 9,043 m² plot in Kadıköy, İstanbul, owned by Tecim Yapı. It was decided to acquire a 45% stake in the project comprising a hotel and commercial spaces, which is planned to be developed on the said land depending on the final zoning status.

Owned by our Company, Sirkeci Office Building was sold during the reporting period, and the sales price of TL 53.1 million including VAT has been collected in full.

During 2016, the Company purchased the 62,655 m² parcel owned by Alamsaş Alarko Ağır Makina Sanayi A.Ş. and the real property on it for project development purposes. The work for the new project is planned to be initiated within 2017.

Merger talks were initiated with TSKB Real Estate Investment Trust in line with our Company's investment strategy to increase existing rental revenues and diversify the portfolio, and in view of the potential synergy that will result from the merger.

İş REIC Strategy in 2017

İş REIC diversifies its portfolio by investing in projects in the real estate sector such as offices, retail sector and residences, and adopts the strategy of generating maximum benefit for its shareholders by increasing its ongoing revenues and profitability. Accordingly, the Company aims to capture the ideal balance between real estate investments that will generate regular income and those on which development profit will be derived in parallel with the conjuncture.

To this end, mixed-use project concept covering both residential and commercial units is given emphasis in the projects developed, thus rendering the benefit to be derived continuous thanks to leasing activities, while sales are intended to serve to generate high returns and profitability.

Within the frame of the fundamental strategies described above, the top priority of İş REIC in 2017 is to bring all of its ongoing investments to completion within the projected timelines, to capture the targeted lease and sales figures, to sustain high cash dividend distribution, and to carry on with project developments that will result in optimum use and benefits on properties included in its portfolio.

Besides all these activities, the Company closely monitors investment opportunities relating to projects and real estate properties that will secure the Company's organic and revenue

growth, and assesses them in line with its investment strategy.

When planning for 2017 and following years, risks that may stem from the business environment are also taken into consideration, a close eye is kept on exchange rate risk in investment and funding decisions, and the lowest risk/maximum benefit/cost trade-off is observed.

The Board of Directors regularly monitors the actualizations within the frame of strategic goals, revises the targets as and when called for by new circumstances, and shapes investment and financing decisions accordingly.

Activities of the Investor Relations Department

İş REIC has acknowledged its compliance with corporate governance principles, keeps a close watch on changes in the regulatory framework governing such principles, exercises maximum care in its compliance with such issues, and makes necessary improvements to increase the extent of its compliance with corporate governance principles.

The Company's "Investor Relations Department" has been operating since 28 January 2005 within the frame of the CMB's applicable regulations.

The Investor Relations Department regularly and efficiently manages the exercising of shareholder rights, public disclosure and information sharing activities in particular, as well as General Assembly and capital increase formalities.

Prior to each Board meeting, the Department prepares a report to be submitted to the Board of Directors about the Department's activities during the period, investors' and brokerages' remarkable assessments and analyses. The Department manager physically participates in the Board of Directors meetings. Serving as a bridge between the Department and the Board of Directors, the Corporate Governance Committee, which actively oversees the Department's activities, meets prior to each Board meeting, and evaluates the activities carried out by the Department during the reporting period. Following the meeting, presentations about the topics that have been discussed in the Board meetings are shared with the Board of Directors. Besides monthly reports, "Annual Investor Relations Activity Report" is drawn up following the end of the fiscal year. As indicated in the operating principles of the committee, the Investor Relations Department also handles the secretarial tasks of the Corporate Governance Committee.

The manager of the Investor Relations Department, being a member of the Corporate Governance Committee, participated in all of the Committee meetings held during the year, provided information to the Committee about the Department's activities and the material developments that took place during the reporting period, and took active part in the improvement and rating of corporate governance practices.

Public Disclosure and Provision of Information

During the reporting period, the Investor Relations Department held one-on-one meetings with domestic and international investment companies at the Company's headquarters, took part in conferences and roadshows organized by brokerages, one in Turkey and three abroad, and participated in teleconferences at the Company headquarters; within this context, the Company had contacts with more than 80 people from nearly 60 investment companies.

The majority of parties the Company had contact with during the reporting period consisted of analysts and fund managers from local and foreign brokerages and asset management companies.

During the year, the Investor Relations Department responded to nearly 320 queries, most of which were received by e-mail. Information requests received from local and foreign investors or brokerages were responded to with careful observation of all matters with respect to public disclosure, and particularly the legislation and the Company's Information Policy. About 72% of all requests for information were of an institutional nature, while the remaining 28% consisted of individual queries.

Shareholders request information by directly contacting the Investor Relations Department employees, or by sending an e-mail either to the Department's e-mail address or using the communication form available on the website. Shareholders usually contact the Department employees directly or via the Department's e-mail account, and rarely use the contact form on the website.

In addition to investors' queries, support is extended for information requests, surveys and academic studies within the scope of research conducted by universities and various public institutions.

Necessary records in relation to written and oral information requests and the responses provided to them are regularly kept by the Investor Relations Department. Besides the information requests received by the Company, the Department also regularly monitors the reports and bulletins published by brokerages in which any mention of the Company is made, while providing the necessary support to brokerages for their reporting processes.

The Company website is actively used to facilitate public disclosure and exercise of shareholder rights. Quarterly investor presentations in Turkish and English, as well as the balance sheet and income statement drawn up within the scope of financial statements, along with material event disclosures made through the Public Disclosure Platform (KAP) are prepared in Turkish and English and posted on the corporate website the same day; they are also sent via e-mail to those investors who are included in the distribution list. Moreover, those sections of the Company's corporate website that are subject to updates, particularly the information with a potential impact on the exercise of shareholder rights, are

regularly updated. Thereby, accurate and up-to-date information is made available especially to investors and analysts in addition to various individuals or institutions that require information about the Company and its activities.

Corporate Governance

İş REIC has acknowledged its compliance with corporate governance principles, keeps a close watch on changes in the regulatory framework governing such principles, exercises maximum care in its compliance with such issues, and makes necessary improvements to increase the extent of its compliance with corporate governance principles.

The Company receives corporate governance rating service from Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA). Following the review conducted by SAHA in 2016, the Company's corporate governance rating was upgraded to 93.41. The Company was given the following ratings in the four main sections: Shareholders 91.49, Public Disclosure and Transparency 98.46, Stakeholders 95.66, Board of Directors 90.21.

The corporate governance rating assigned to İş REIC is a result of the importance the Company attaches to corporate governance principles, its commitment to execute it as a continuous and dynamic process, and the improvements realized to this end.

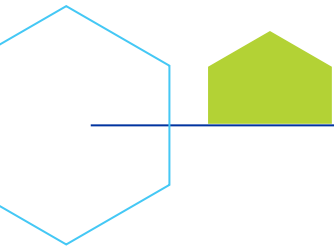
With its revised corporate governance score, the Company continues to be traded on the BIST Corporate Governance Index, in which it was included in 2012.

Detailed information about the Company's corporate governance practices and performance is provided in the "Corporate Governance Principles Compliance Report" section of this annual report.

Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş.	
Corporate Governance Rating	93.41
Shareholders	91.49
Public Disclosure and Transparency	98.46
Stakeholders	95.66
Board of Directors	90.21

**Corporate
Governance
Rating
93.41**

Activities of the Audit Group



The group's monitoring and reviewing activities are carried out independently. Their underlying goals are to foster an internal auditing culture throughout the Company and to determine the effectiveness and efficiency of the Company's internal control, risk management, and corporate governance systems.

The Audit Group is responsible for monitoring and reviewing all of the business processes and activities of Company departments, for evaluating and reporting its findings, and for making such recommendations pertaining to those findings as the group may deem to be necessary. The group's monitoring and reviewing activities are carried out independently. Their underlying goals are to foster an internal auditing culture throughout the Company and to determine the effectiveness and efficiency of the Company's internal control, risk management, and corporate governance systems.

Audit and control systems at the Company have been structured in accordance with international practices, principles and organization framework. Established in November 2008, the Audit and Control Department was structured separately from and independent of other Company units. The department began reporting directly to the Board of Directors in June 2012. Internal control activities are also handled by the Audit Group at the Company.

The Group, which is responsible for audit activities, carries out its activities under the "İş REIC Audit Guidelines" which sets out the incorporation, operation, and activities of the Company's Audit Group, the duties, powers and responsibilities of the Group employees, along with operating principles and procedures. The Audit Group's activities during the year are executed in accordance with the "Annual Audit Plan" approved by the Committee for Audit. In a bid to further and improve the organization's efficiency in all aspects and to add value to the organization, the audit system is run so as to develop systematic approaches for independent and impartial evaluation and improvement of the risk management, internal control and governance processes, and thus help the organization achieve its targets.

Risk Management

Risk management functions and activities at İş REIC were placed under the responsibility of a separate risk management unit in 2005. This unit's duties consist of managing all risks which are inherent in the Company's activities within the framework of the Company's published Risk Policy and of associated internal rules and regulations. The Risk Management Unit reports to Company senior management.

The Board of Directors and the Committee for Early Detection of Risk are kept informed about the Company's risk exposure by means of a comprehensive "Company Risk Report" that is prepared and submitted every three months. This report includes, among other things, information about the Company's business sector, key financial indicators, and the results of the unit's analysis and assessment of the risks which are inherent in the Company's activities. Detailed information is provided about business environment risk, a category of operational risk that the Company is particularly exposed to.

Furthermore, within the scope of the duties and responsibilities charged to the Committee for Early Detection of Risk and the Board of Directors under article 378 of the Turkish Commercial Code no. 6102, a "Committee for Early Detection of Risk Report" is prepared on a bimonthly basis and submitted to the Board of Directors for its information.

İş REIC has published a "Company Risk Catalogue" that identifies all of the risks which are inherent in the Company's activities as dictated

by changing market and business conditions. This catalogue is constantly reviewed and kept up to date, new types of risk are defined, potential risks are identified, and risk-mitigation measures are proposed. The goal of all of these activities is to enable senior management to take whatever measures are needed to ensure that the Company's risks are effectively managed.

In the conduct of its portfolio management activities, the Company invests not just in real estate properties but also in money- and capital-market instruments. As of end-2016, real estate investments made up about 97% of the Company's overall investment portfolio. Primary risks inherent in these investments include business environment risk, credit risk and liquidity risk. Risks within this scope include external factors such as changes in legislation/implementations with a potential impact on Company operations, and the supply and demand in the sector. The Company takes necessary measures to minimize its exposure to business environment risk, makes use of risk control systems and closely watches the effectiveness of these systems.

Credit risk is an expression of the risk of loss that may be suffered by the Company on account of the inability or failure of a counterparty to a contract made with the Company to fulfill its contractual requirements and/or to timely satisfy its contractual obligations, in part or in whole. The Company complies with internal guidelines in order to minimize its potential credit risk exposure in relation to transactions to which the Company is a party.

Liquidity risk is defined as the possibility of the Company's suffering, on account of imbalances in its cash flow, a loss because there are not enough cash assets available or cash flow sufficient in volume and quality to fulfill all of its cash disbursement obligations in full and on time. İş REIC manages its liquidity risk exposure by placing cash resources that it does not use in projects in money- and capital-market instruments whose values and maturities are compatible with its cash-flow needs. The Company's short and long term financing needs are determined through regular cash projections; the maturity and the type of foreign currency relationships between the Company revenues and investment costs are closely watched, and the Company's cash holdings and financing strategies are shaped accordingly. The Company's liquidity is regularly analyzed and monitored using the methods and limits set by the management, and the results are reported to the senior management.

As of 31 December 2016, money and capital market investments made up 3% of İş REIC's overall investment portfolio. These investments are exposed to inherent market risk, which is regularly analyzed and monitored using the methods and principles determined by the management, and the results are reported to senior management.

Human Resources

Shared corporate culture

İş REIC aims to create a shared corporate culture by recruiting the human resource that espouses the same values with the Company, and seeks to create competitive advantage by conducting the necessary training, development and cultivation activities.

İş REIC recognizes the participation of human resources who share common values in the Company and providing such human resources with training and progression opportunities that will support their personal and professional development as essential elements of its corporate culture.

İş REIC's Human Resources & Education Department that takes a proactive, innovative, systematic, and open-communication approach, is aware of its impact on the Company's strategic decisions, and cooperates with all related parties.

Human resources functions at İş REIC consist primarily of employee recruitment, performance management, career planning, compensation and benefits management, training, development, and communication. The Company's human resources practices are carried out with the aims of increasing employee performance and productivity and of improving the quality of the workplace environment. Its recruitment and placement activities are informed by the principle of choosing the best people from among candidates who are compatible with İş REIC's corporate culture and values, who are professionally competent, who are open to development, and who have strong potential. Having identified such individuals, the Company then places them in positions that best suit their abilities.

With the support of the Human Resources & Education Department and the cooperation of Company managers, employees who are interested in their own professional progression take part in discussions about how their own career paths are to be managed. This approach is embodied in İş REIC's belief that every employee should be a potential leader.

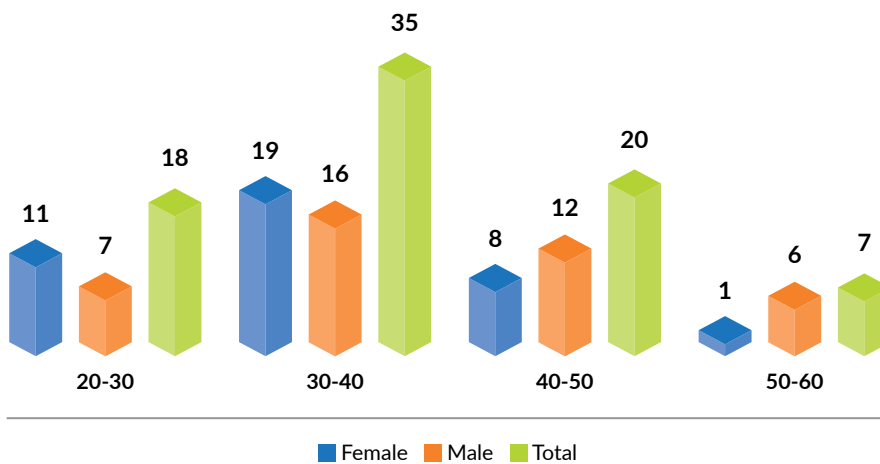
Human Resources Policy

The main objective of İş REIC is to recruit qualified personnel in order to carry out Company activities in the most effective manner and to ensure employee motivation so as to maintain constant success, as well as continuously improve financial and social rights of employees, create a fair and professional work environment and determine the training needs of personnel.

In line with the objectives and strategies specified in the Company's Human Resources Policy, the Company aims to create a shared corporate culture by recruiting the human resource that espouses the same values with the Company, and seeks to create competitive advantage by conducting the necessary training, development and cultivation activities.

Matters such as employment conditions, career path and advancement requirements, monetary arrangements and fringe benefits are clearly detailed in the Company's Human Resources Regulation for the information of employees. The Human Resources and Education Department carries out all decisions made in relation to the employees within the scope of the said regulation.

Employees' job descriptions were developed based on business analyses. Number of employees, on the other hand, was determined according to the units' workloads and on the basis of distribution of tasks in line with the demands of the Company's Groups. Employees are expected to embrace the performance-driven management concept and recognize that their individual involvement will contribute to customers and shareholders.

Age Breakdown (person)

Therefore, Company Performance Evaluation criteria and their printed results are shared with the employees. Employees who target to add value to their respective jobs are backed by the Human Resources and Education Department, and gain access to self-development and manage their career objectives along with their managers.

The personal honor of each employee and all of their legally recognized rights are protected within the framework of the Company's Code of Ethics. All necessary measures have been taken to ensure a safe and healthy working environment.

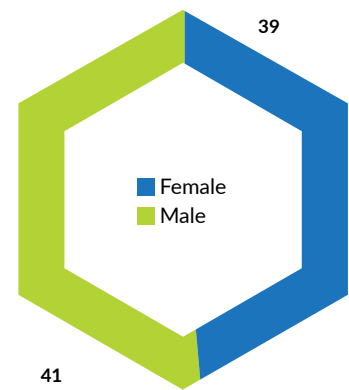
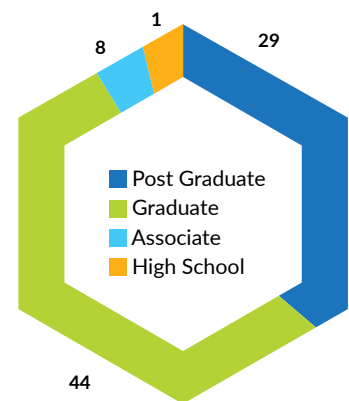
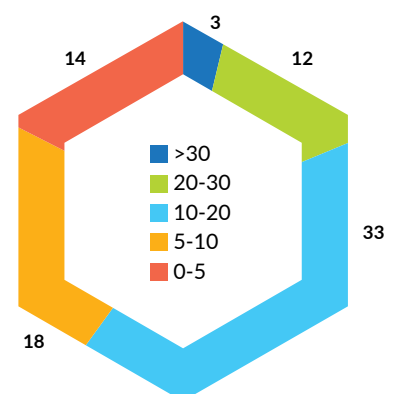
During the reporting period, the Human Resources and Education Department received no complaints on account of discrimination.

Recruiting the Right Person in the Right Job

The Human Resources & Education Department fulfills the recruitment and hiring duties at İş REIC that sees every employee as a future leader.

"Journey to Development"

In 2016, İş REIC rolled out the "Performance and Competence Development System", for which the related work had been ongoing for a while, and which was supported with Neo PI-R personality inventory that provides an insight into behaviors. The system is intended to boost job satisfaction and motivation while clarifying the attitudes and behaviors expected of employees as they work to achieve their goals within their responsibility areas and allowing them

Number of Employees**Educational Status****Work Experience at İş REIC**

Human Resources

“Journey to Development”

İş REIC regards the Performance and Competence Development System as a “Journey to Development”, which will entail active involvement of all employees, and targets to make available the “Development Maps” clarifying development areas to all employees during 2017.

to see their contribution to the overall business. Based on this belief, İş REIC regards this system as a “Journey to Development”, which will entail active involvement of all employees, and targets to make available the “Development Maps” clarifying development areas to all employees during 2017.

Training and Development at İş REIC

The training programs designed according to employees' needs are intended to bring about changes in their knowledge, skills and attitudes, to drive their advancement in their careers, to increase their motivation and job satisfaction, and to align corporate goals and personal targets. İş REIC's priority is to make training programs available for all Company employees within the frame of equality of opportunity. During 2016, Company employees participated in 38 different training programs that were designed to update professional knowledge and build on competencies, such as Communication, Business Law, Financial Management, Tax and Accounting, Sales Leadership and Project Management. In addition, internal conversation sessions, which tackle different topics with the participation of various guests, continued.

Fringe Benefits Granted to Employees

Upon completion of the two-month trial period, the Company pays the employee contribution for those employees who are part of the Private Pension System, and all employees are covered under the corporate health insurance policy. Moreover, subsidized meals and shuttle bus service are provided to all employees. In addition to those, İş REIC pays for the chamber membership dues of its employees who are architects, engineers, lawyers or independent accountant and financial advisors.

Organizational Structure

Groups and Coordinators within İş REIC's organizational structure are presented below:

- Project & Construction Management Coordination Group
- Project Development & Feasibilities and Real Estate Investments Coordination Group
- Legal Counseling & Human Resources and Education Group
- Investor Relations & Corporate Compliance and Risk Management Group
- Financial Management Group
- Corporate Communications, Sales, Leasing, and Marketing Group
- Audit Group

The average seniority of employees at the Company is seven years. Managers are promoted from within. During 2016, five employees were promoted to higher positions.

Corporate Social Responsibility

While headed towards generating high returns for its shareholders, which is a key objective, İş REIC also carries out various activities to contribute to the social life and the environment within the scope of its corporate social responsibility concept.

Along the line, the Company extends support to numerous artistic and sports events, in addition to the activities carried out in the sector. The activities carried out with a view to allowing the young generation gain experience in the sector and to socially equip them coincide with our corporate mission that puts human at its core.

Acting upon the conviction that sustainable growth in all areas is crucial, and with its mission of creating desirable spaces for contemporary people and cities, İş REIC continued to support the sector's development and social solidarity in 2016.

2016 marked the onset of a new initiative, which was introduced to reveal our commitment to finding solutions in view of social issues, needs and expectations as İş REIC. Under the initiative launched based on the core values and targets of the İş REIC brand along with the positive social influence sought to be created in the public, a process was planned whereby the corporate social responsibility strategy will be jointly determined with the Company employees. Advisory support was received from MarjinalSosyal, our communications agency, in line with our search for devising a real solution that would also serve as an example for the sector for a social issue or need aligned with the values embedded in our Company and brand, and related to our field of activity and our expertise. The voluntary team efforts initiated within this context continued throughout the year. The goal is to identify the priority fields, in which we will be working,

and to devise and introduce the social projects we will be conducting in these areas at the end of this process.

In a bid to undertake a participative role in encouraging all segments of the society –male and female, young and old– to take part in sports, İş REIC continued to extend its long-going support to the Konak Municipality Youth and Sports Club Women's Football Team in 2016, which competes in the Turkish Football Federation's Women's Premier League and which qualified to take part in the Turkey Championship.

During the reporting period, the Company maintained its support to sectoral development by sponsoring the Turkish Real Estate Summit 15 organized by GYODER (Association of Real Estate and Real Estate Investment Companies), the Shopping Mall Investments Conference organized by AYD (Council of Shopping Centers - Turkey), the conference titled "Under Construction" co-organized by YEM (The Building Information Center) and İstanbul Bilgi University, and the "Invest in Kartal, Invest in Future Summit" program organized by NTV.

İş REIC opens the doors of the shopping centers in its portfolio to associations and foundations working to benefit the public by offering them the opportunity to set up stands and carry out publicity activities free-of-charge. The Company extends all necessary cooperation in this area.

İş REIC provides gratuitous support to projects in areas that it regards within the scope of its social responsibility such as education, health, culture, law, art, scientific research, environmental protection, and sport. Committed to consistently shaping its approaches, values, and policies within the framework of its corporate social

responsibility, the Company will continue to engage in such activities and to provide them with support in the future as well.

In the conduct of all of its activities, İş REIC takes pains to be a socially responsible actor who abides by the law and is mindful of environmental values. No lawsuits were brought against the Company on account of environmental damage in 2016.

Donation Policy

It is the policy of the Company to make charitable donations which are in line with its sense of social responsibility and which comply with applicable principles and procedures laid down by the Capital Markets Board. In 2016, the Company donated TL 100,000 to the "July 15 Solidarity Campaign". The Company's publicly disclosed donations policy is presented below.

The Company may make charitable donations which are in line with its sense of social responsibility and which comply with applicable principles and procedures laid down by the Capital Markets Board.

The Company may make charitable donations related to the matters listed below with the aim of contributing favorably towards public perceptions of its sensitivity about the fulfillment of its social responsibilities and on condition that it shall do so without securing any financial or commercial benefit therefrom.

- Education, health, culture, law, art, scientific and scholarly research, environmental protection, sport, and similar social endeavors;
- Natural disasters that have occurred in Turkey or elsewhere.

Additional Information Required by CMB Regulations

Related Party Transactions

İş REIC regularly engages in related-party transactions with its principal shareholder İşbank and with other members of the İşbank Group. These are ordinary transactions carried out as part of the Company's normal business activities. They consist primarily of:

- Letting properties and accounting for revenues, expenditures, and receivables associated therewith;
- Borrowings, mortgagings, and collateralizations related to the conduct of the Company's ordinary business activities;
- Insurance, banking, and non-banking services procured in the conduct of the Company's ordinary operations;
- Other goods and services procurements.

Rental income makes up a substantial part of İş REIC's business revenues. In 2016, the Company received a total of TL 109,741,004 as rental income from related parties. As of the end of the reporting period (31 December 2016), total cash and cash equivalents belonging to İş REIC and held in accounts with İşbank amounted to TL 125,765,375 in value. As of the same date, İş REIC had received, from İşbank, a letter of guarantee worth TL 14,703,799. İşbank also holds prior and second liens over some of İş REIC's real estate properties amounting in total to USD 147,000,000 and TL 685,000,000. At the end of the reporting period, İş REIC's accounts showed a financial liability of TL 584,329,855 to İşbank on account of the loan taken out from that bank. Furthermore, out of the bonds İş REIC issued during 2016, the portion corresponding to TL 33,211,000

was held by group companies as at 31 December 2016.

More detailed information about related party transactions, which İş REIC was involved in during 2016, is provided in footnote 24 ("Related Party Disclosures") to the Company's financial statements provided elsewhere in this annual report.

In the "Conclusions" section of the "Affiliated Companies Report" published in compliance with the requirements of article 199 of the Turkish Commercial Code no. 6102, which went into effect on 1 July 2012, the following statement is made:

"All of the Company's dealings with its principal shareholder İşbank and with other members of the İşbank Group in 2016 are in the nature of ordinary transactions which are carried out on an arm's-length basis as part of the Company's normal business activities. The Company was adequately and appropriately compensated for each and every such transaction that it entered into at the time the transaction occurred. The conclusion reached is that there were no measures taken or refrained from which might have caused the Company to suffer a loss."

Lawsuits Initiated Against the Company during the Reporting Period

No suits capable of materially affecting either the Company's financial standing or its activities were initiated against the Company during the reporting period.

Administrative or Judicial Action Initiated Against the Company or the Members of Its Governing Bodies

No administrative or judicial action was initiated against the Company or any member of any of its governing bodies during the reporting period.

Legal Transactions with the Group of Companies

İş REIC is a member of İşbank group of companies. Both İş REIC and İşbank are publicly-held and publicly-traded companies and are therefore subject to external as well as internal audit. İşbank is also subject to supervision by the Banking Regulation and Supervision Agency and by the Capital Markets Board while İş REIC is additionally subject to Capital Markets Board supervision. On these grounds therefore the actions and dealings of both companies may be deemed to be in compliance with the requirements of law. Currently applicable law prevents a controlling company from making decisions or engaging in acts which are detrimental to the interests of a controlled company. For this reason, no other measures or actions were deemed to be necessary in order to prevent the Company from suffering a loss.

Transactions Involving Individuals Who Have Privileged Access to Company Information

No shareholder having management control over the Company, nor any Member of the Company's Board or of its senior management with administrative responsibility, nor any other person with privileged access to Company information save for any of their spouses or their relatives by blood or by marriage unto the second degree informed the Board of Directors on any matter for incorporation in the agenda for provision of information at the General Assembly about transactions they were engaged in on their own behalf, which fall within the Company's object and scope.

Changes in Legislation during the Reporting Period

During the reporting period, the following communiqués and regulations were issued, which may potentially affect the Company's activities:

- Personal Data Protection Law
- Regulation Amending the Regulation on Shopping Malls
- Regulation Amending the Regulation on Reconstruction of Areas with Zoning Plans
- Regulation Amending the Implementation Regulation for Law no. 6306 concerning Transformation of Areas under Disaster Risk

- Communiqué regarding Projects with Planned Capacity Increase and/or Expansion issued with "EIA Positive" or "EIA Not Required" Decision published in the Official Gazette issue 29736 dated 8 June 2016.

The legislation mentioned above is being evaluated with respect to İş REIC's activities, and necessary work is being carried out for achieving compliance with the legislation.

Portfolio Information

Commercial Properties

- İstanbul İş Towers Complex (Tower 2 - Tower 3 - Kule Çarşı Shopping Mall)
- Ankara İş Tower
- İstanbul Maslak Office Building
- Ankara Ulus Office Building
- Ankara Kızılay Office Building
- Antalya Office Building
- İstanbul Kanyon Shopping Mall
- İstanbul Esenyurt Hypermarket Building
- İstanbul Marmara Park Shopping Mall
- Nevşehir Kapadokya Lodge Hotel
- Muğla Marmaris Mallmarine Shopping Mall
- İstanbul İşbank Technology & Operation Center
- İstanbul Tuzla Mixed-Use

Real Estate Projects

Ongoing Projects

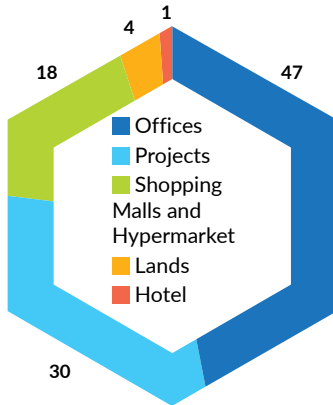
- İzmir Ege Perla Project
- İstanbul Kartal Manzara Adalar Project
- İstanbul Financial Center Project
- İstanbul İnistanbul Project

Lands

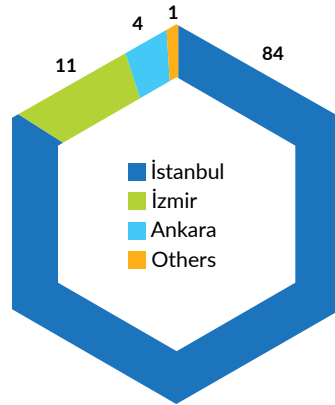
- İstanbul Üsküdar land (32,081 m²)
- İstanbul Levent İş Towers vacant land (7,613 m²)
- İstanbul Kadıköy land (9,043 m²)*
- İstanbul Tuzla land (62,655 m²)

* A promise to sell agreement was executed for including the Kadıköy property in the portfolio.

Value of the Portfolio - Breakdown by Type (%)



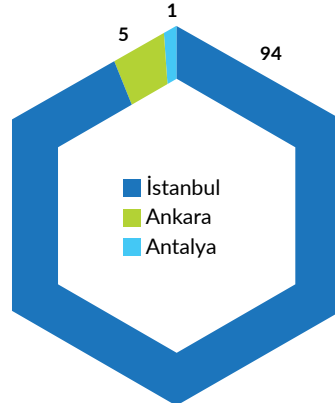
Value of the Portfolio - Breakdown by Region (%)



Rental Income - Breakdown by Type (%)



Rental Income - Breakdown by Region (%)







İstanbul İş Towers Complex

Solid infrastructure and technological hardware

İş Towers Complex is a sustainable heritage for the future by virtue of its robust infrastructure, state-of-the-art technology, outstanding architectural concept and eco-friendly building properties.

Set right in the middle of the Mecidiyeköy-Maslak axis in İstanbul and comprising two 34-storey office towers with 27 leasable floors in

each, and Kule Çarşı, a mall with 48 independent sections, the complex has established itself as one of the city's landmarks.

İş Towers Complex is a sustainable heritage for the future by virtue of its robust infrastructure, state-of-the-art technology, outstanding architectural concept and eco-friendly building properties.

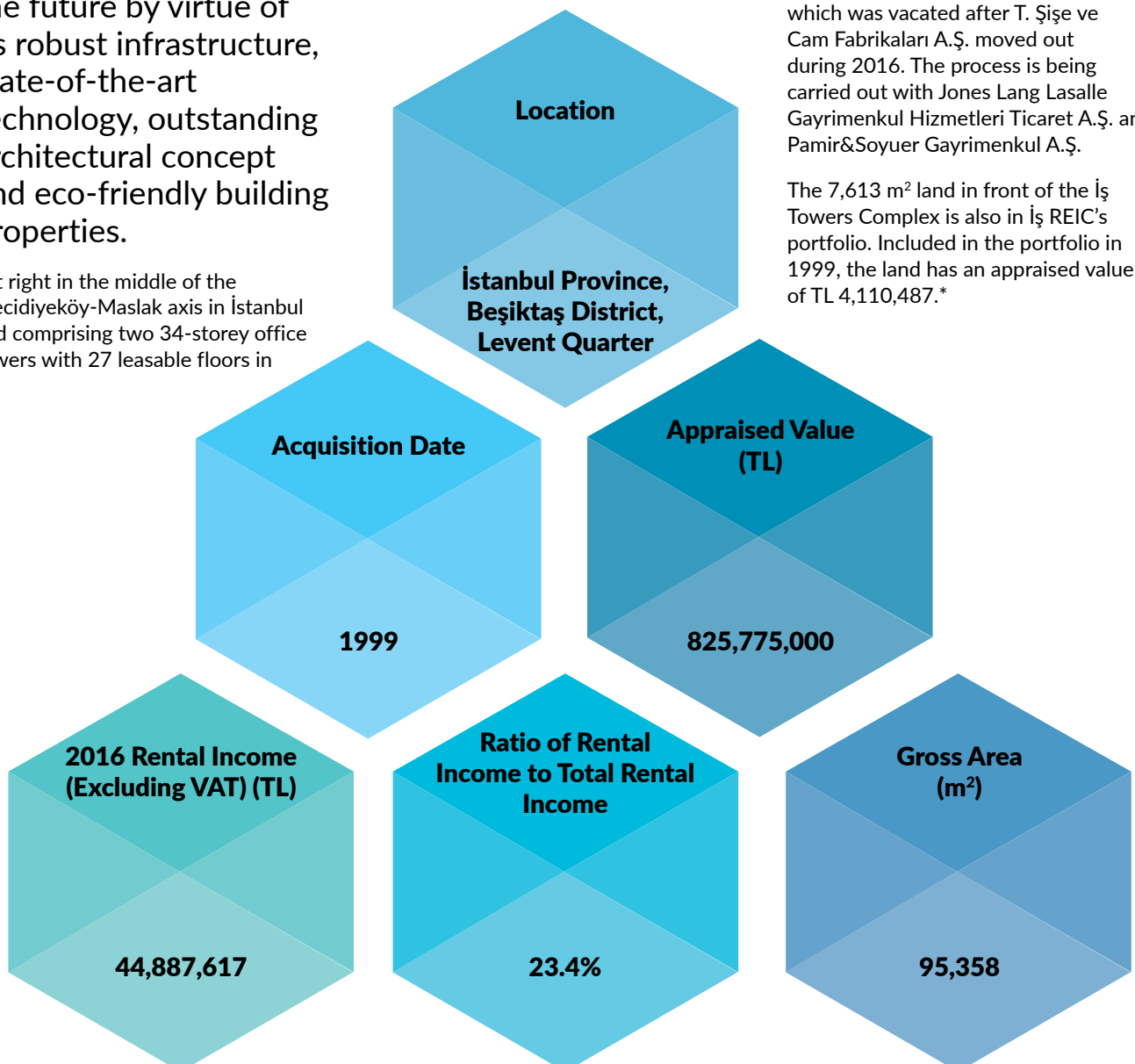
İş Towers, preferred also for availability of convenient transportation means, have become the choice of prestigious and financially sound domestic and

foreign companies. The independent sections in the complex are rented out on leases averaging five years.

In addition to Tower 2, Tower 3 and Kule Çarşı Shopping Mall included in İş REIC's portfolio, the Complex is also home to the 52-storey İşbank Head Office building, the 800-seat auditorium of İş Sanat Art and Cultural Center, and a 479-vehicle car park.

The process for renting out Tower 3 was initiated, which comprises 26 storeys and a half-storey covering a gross area of 1,033 m² and which was vacated after T. Şişe ve Cam Fabrikaları A.Ş. moved out during 2016. The process is being carried out with Jones Lang Lasalle Gayrimenkul Hizmetleri Ticaret A.Ş. and Pamir&Soyuer Gayrimenkul A.Ş.

The 7,613 m² land in front of the İş Towers Complex is also in İş REIC's portfolio. Included in the portfolio in 1999, the land has an appraised value of TL 4,110,487.*



* Not included in the appraised value of TL 825,775,000 of İş Towers Complex.



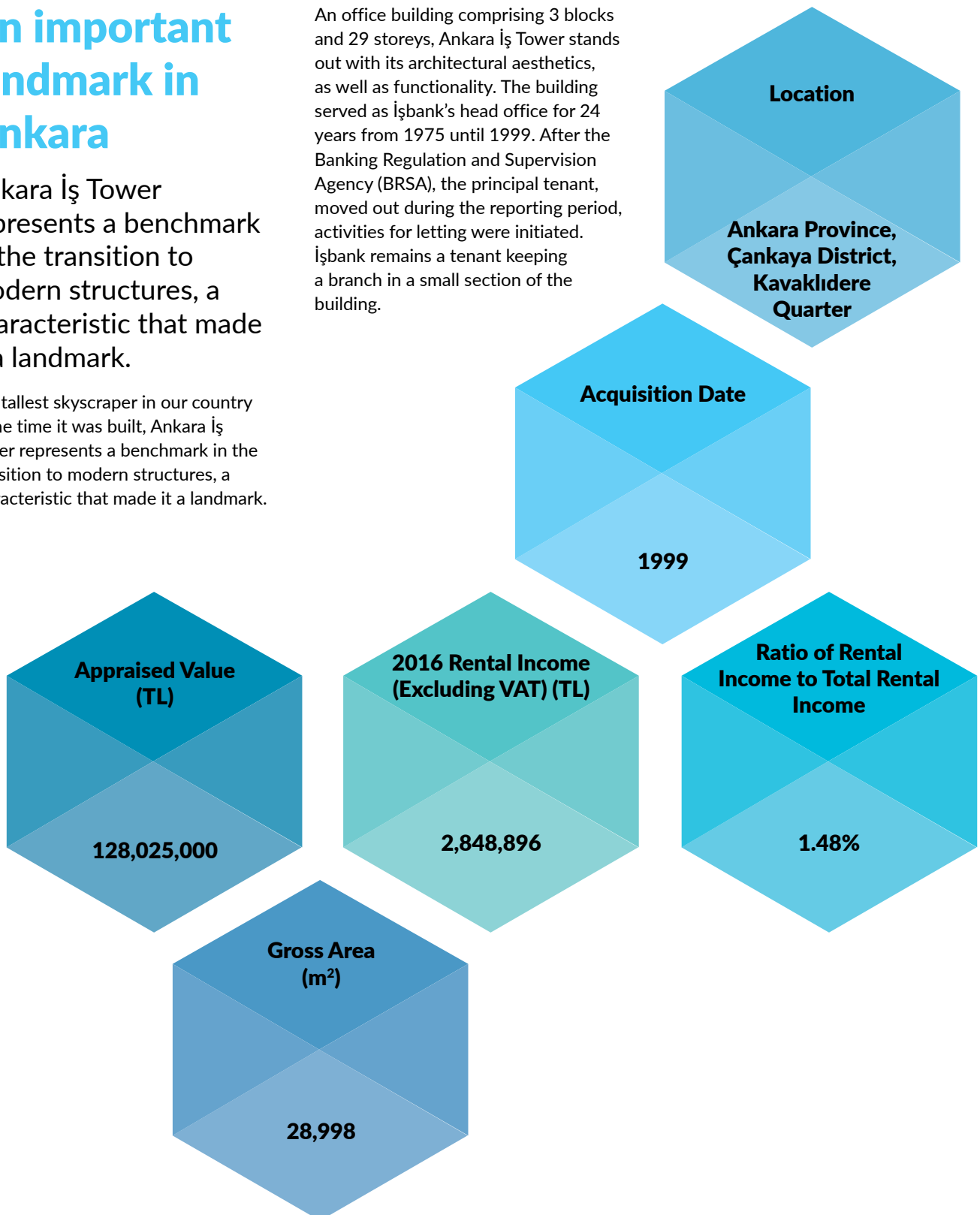
Ankara İş Tower

An important landmark in Ankara

Ankara İş Tower represents a benchmark in the transition to modern structures, a characteristic that made it a landmark.

The tallest skyscraper in our country at the time it was built, Ankara İş Tower represents a benchmark in the transition to modern structures, a characteristic that made it a landmark.

An office building comprising 3 blocks and 29 storeys, Ankara İş Tower stands out with its architectural aesthetics, as well as functionality. The building served as İşbank's head office for 24 years from 1975 until 1999. After the Banking Regulation and Supervision Agency (BRSA), the principal tenant, moved out during the reporting period, activities for letting were initiated. İşbank remains a tenant keeping a branch in a small section of the building.



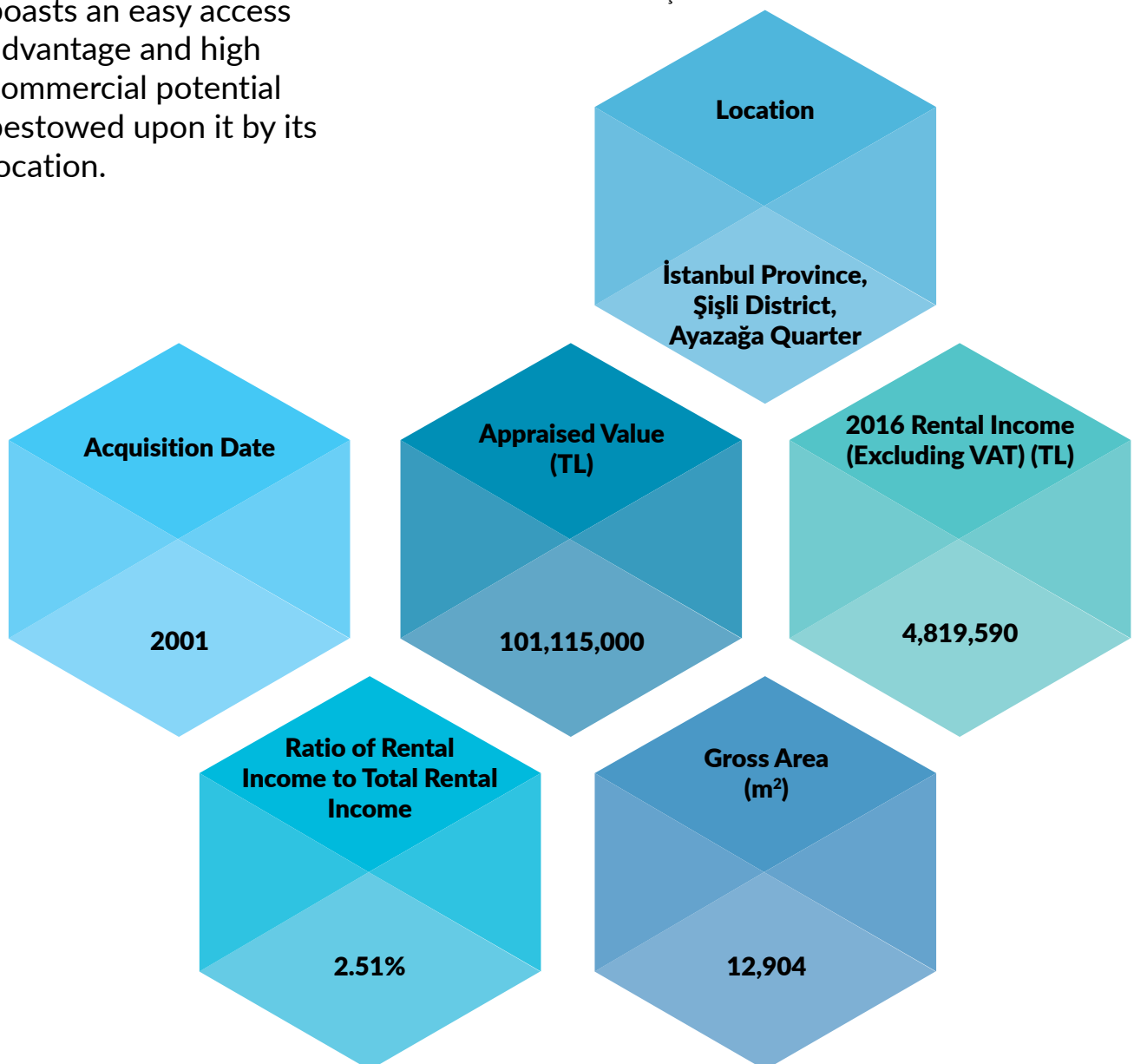


İstanbul Maslak Office Building

Unparalleled location, easy access

Maslak Office Building boasts an easy access advantage and high commercial potential bestowed upon it by its location.

Located along the Levent-Maslak thoroughfare, which is one of İstanbul's most important trade and finance hubs, Maslak Office Building has 12 storeys. The building boasts an easy access advantage and high commercial potential bestowed upon it by its location. The tenants of the building include OMV Petrol Ofisi and İşbank.



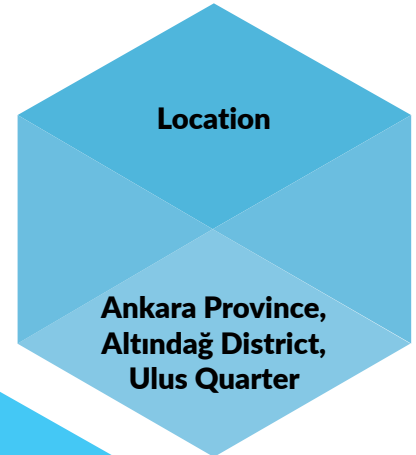
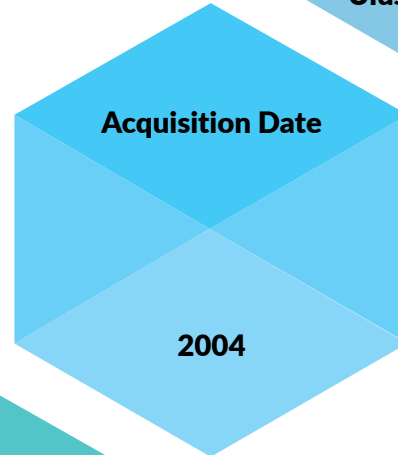
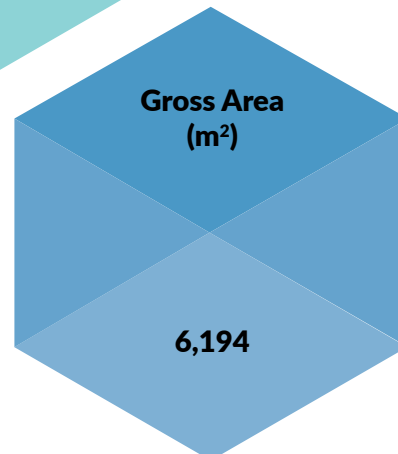
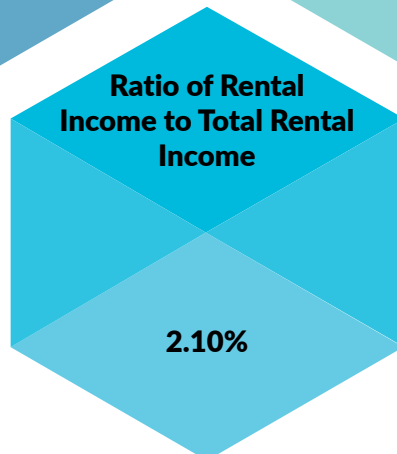
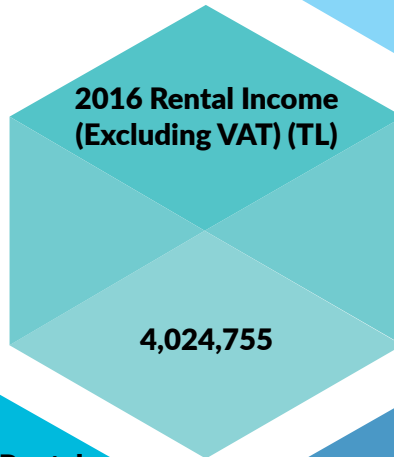
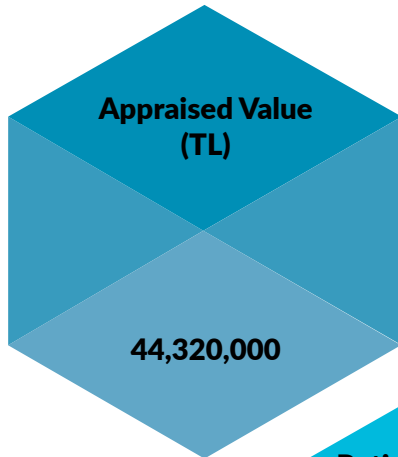


Ankara Ulus Office Building

A structure set apart with its architecture and history

Reflecting the architectural aesthetics of the early Republic era, Ankara Ulus Office Building has a remarkable commercial value owing also to its architectural and historical associations and its location.

Having served as İşbank's second head office building, Ankara Ulus Office Building reflects the architectural aesthetics of the early Republic era. Having a remarkable commercial value owing also to its architectural and historical associations and its location, Ulus Office Building is let to İşbank on a 15-year lease.



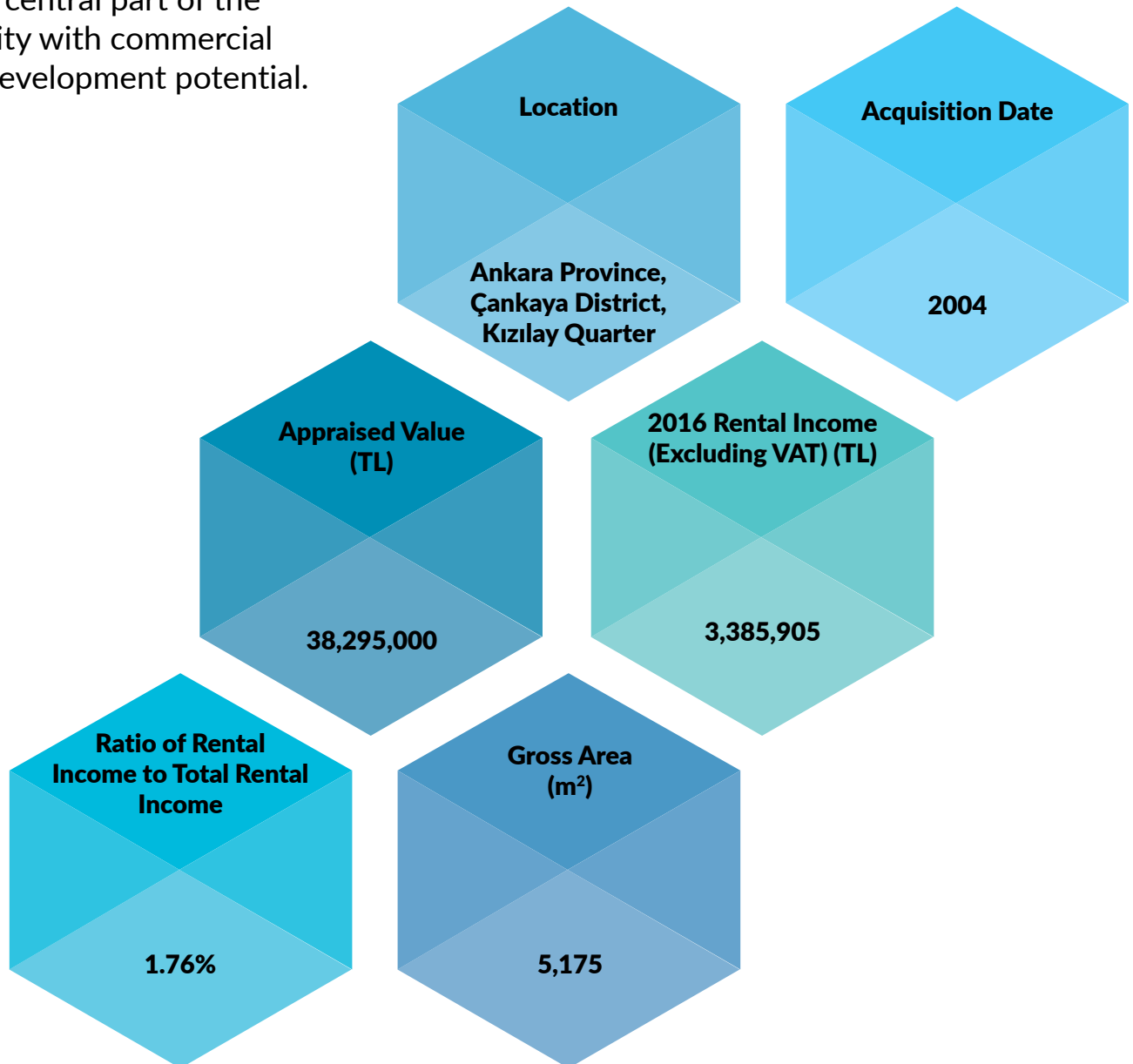


Ankara Kızılay Office Building

Centrally situated at a viable location

Ankara Kızılay Office Building is located in a central part of the city with commercial development potential.

Situated in the Kızılay district, the business and commercial hub of Ankara, the office building possesses a strong commercial potential. Kızılay Office Building is held by İşbank under a 15-year lease.



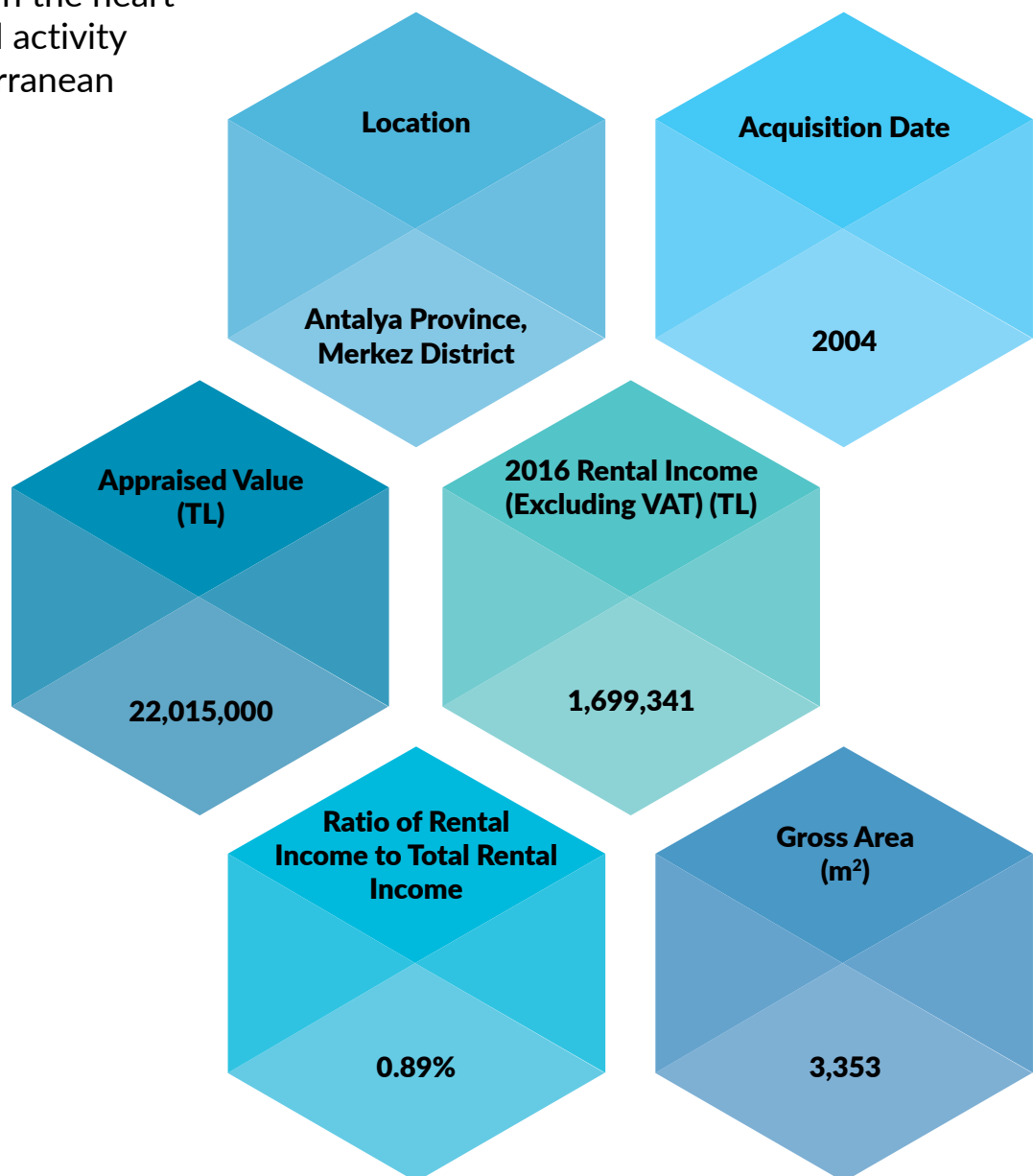


Antalya Office Building

At the heart of commercial activity

Antalya Office Building is erected right in the heart of commercial activity in the Mediterranean Region.

Situated in Antalya, one of Turkey's top tourist cities, the Office Building stands out both with its location and its high commercial potential. The building is held by İşbank under a 15-year lease.



Istanbul Kanyon Shopping Mall

Original approach, modern architecture

Istanbul Kanyon Shopping Mall is set apart with the original approach it has brought to shopping, entertainment and retailing, and its modern architecture.

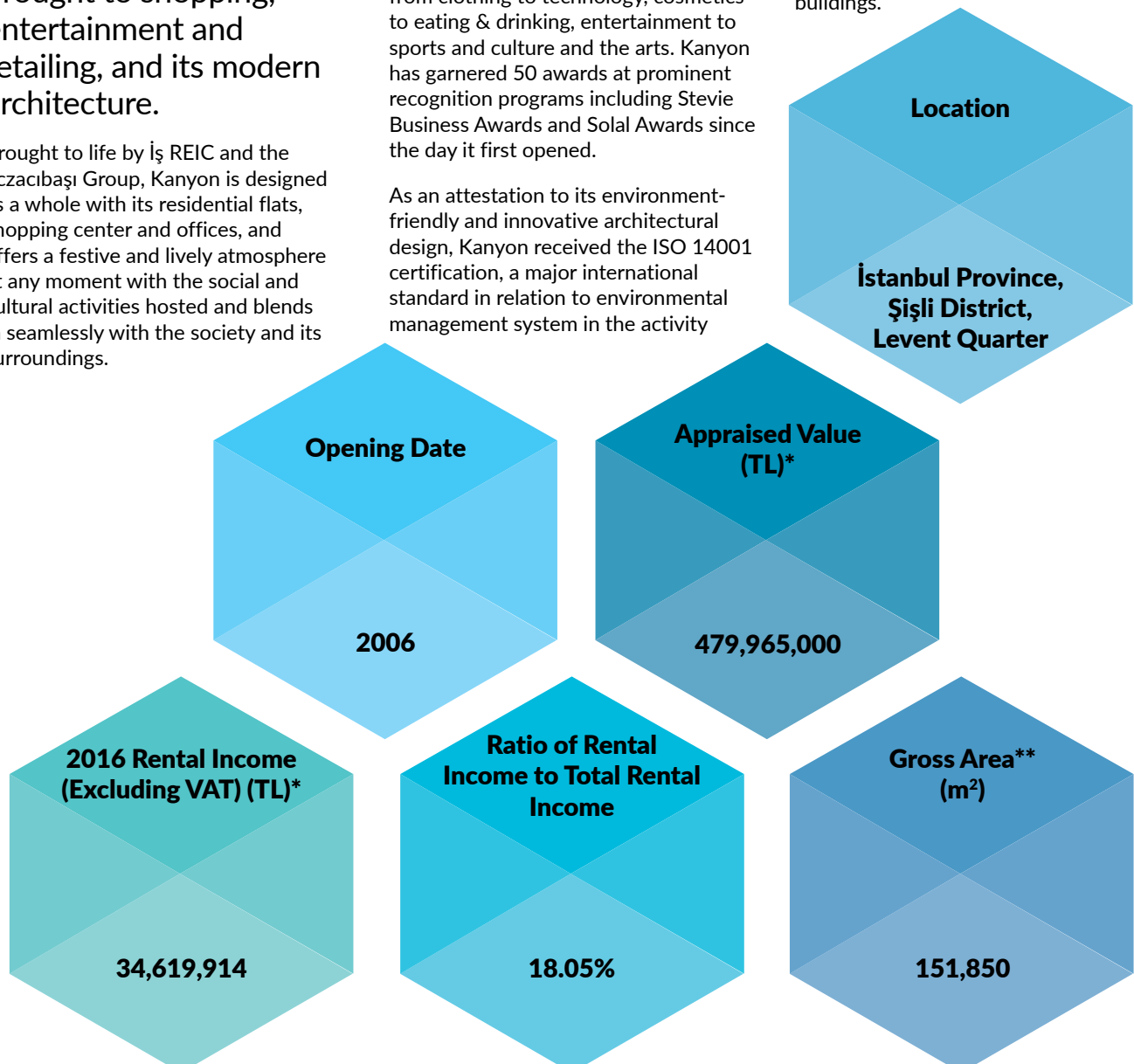
Brought to life by İş REIC and the Eczacıbaşı Group, Kanyon is designed as a whole with its residential flats, shopping center and offices, and offers a festive and lively atmosphere at any moment with the social and cultural activities hosted and blends in seamlessly with the society and its surroundings.

Set apart with its comfortable setting giving a taste of open air shopping, the original approach it has brought to shopping, entertainment and retailing, combined with its modern architecture, Kanyon Mall houses nine cinemas, a health and gym center, bars, cafés, restaurants, and an indoor/outdoor swimming pool. Sitting on an area of 40 thousand m², the shopping center consists of four storeys and 160 stores.

For more than a decade, Kanyon has been promising “unique experiences” to its guests, boasting a brand mix ranging from clothing to technology, cosmetics to eating & drinking, entertainment to sports and culture and the arts. Kanyon has garnered 50 awards at prominent recognition programs including Stevie Business Awards and Solal Awards since the day it first opened.

As an attestation to its environment-friendly and innovative architectural design, Kanyon received the ISO 14001 certification, a major international standard in relation to environmental management system in the activity

fields of “Building, Residences, Offices, Shopping Centers and Entertainment Places”. In addition, after being certified as “Excellent” in 2012 according to BREEAM criteria that is another international certification in this field, Kanyon upgraded its certification to “Extraordinary” in 2015. Being the first commercial structure in Turkey to earn certification at this level in building management, Kanyon surpassed the other nominees and claimed the award in the “BREEAM Retail In-Use” category at the BEST OF BREEAM 2016 award ceremony recognizing multi-purpose buildings.



* İş REIC holds 50% title in the shopping mall, and both the appraised value and rental income represent the share of İş REIC.

**Total gross area of the shopping mall

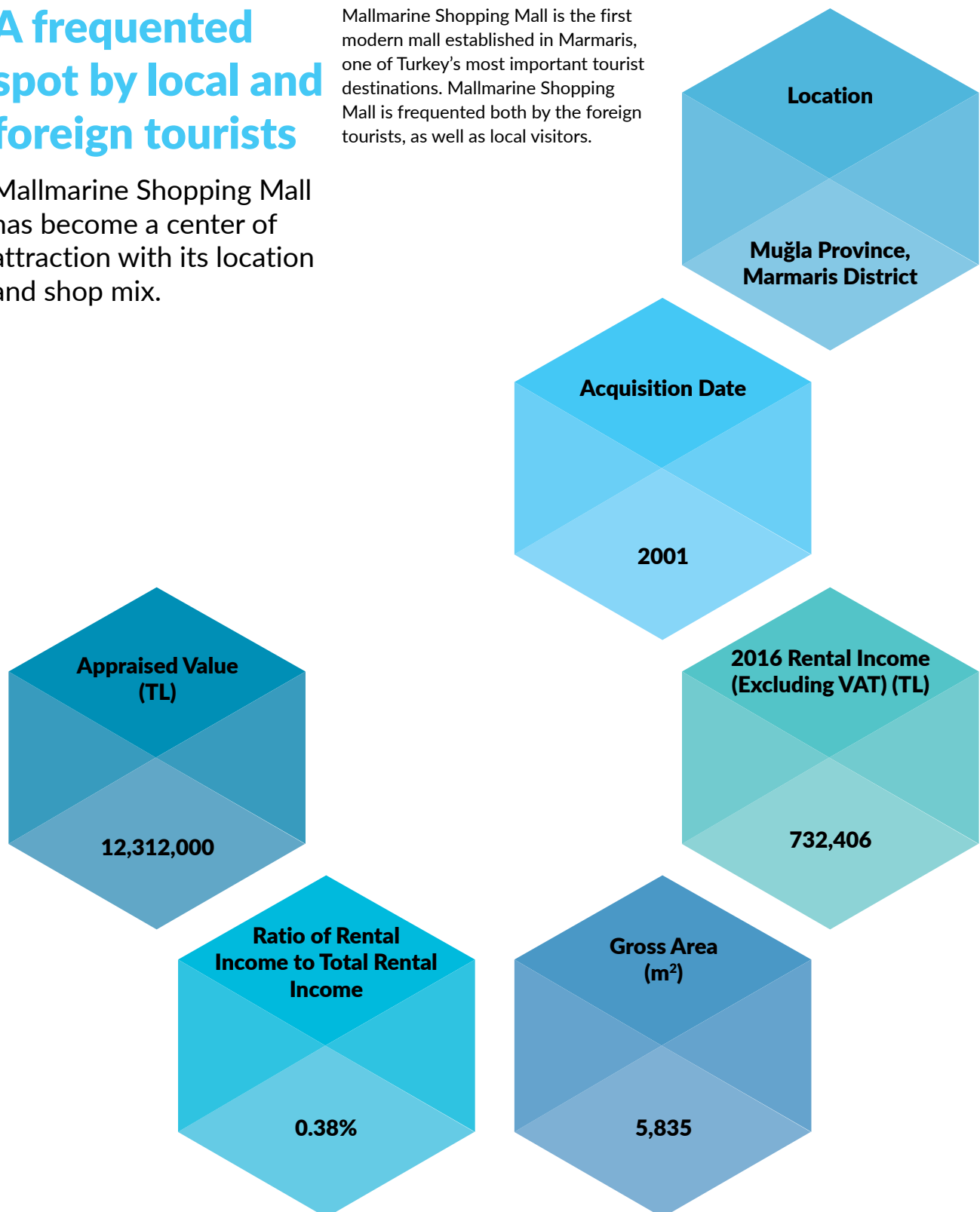


Muğla Marmaris Mallmarine Shopping Mall

A frequented spot by local and foreign tourists

Mallmarine Shopping Mall has become a center of attraction with its location and shop mix.

Mallmarine Shopping Mall is the first modern mall established in Marmaris, one of Turkey's most important tourist destinations. Mallmarine Shopping Mall is frequented both by the foreign tourists, as well as local visitors.





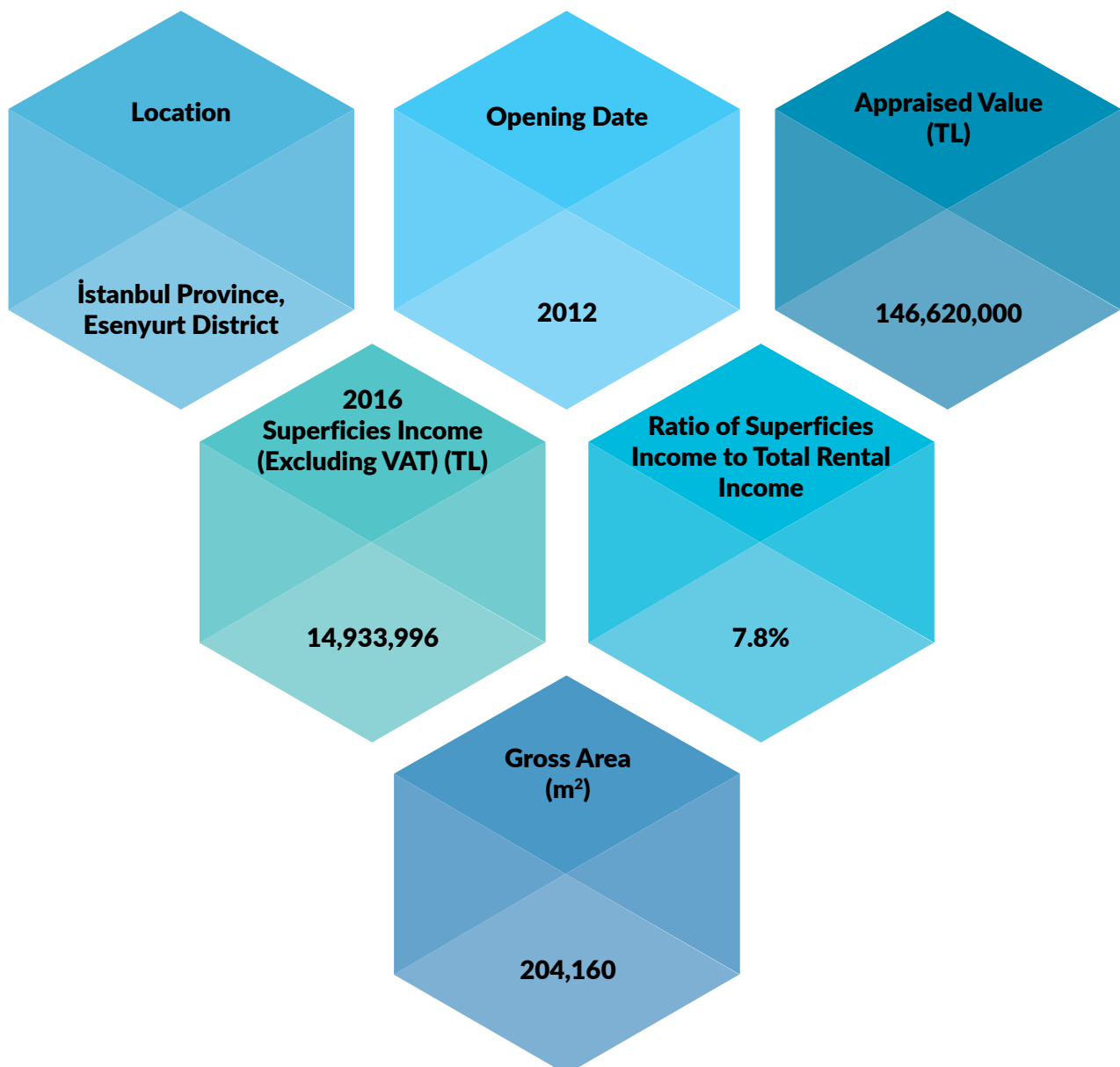
Istanbul Marmara Park Shopping Mall

One of Europe's biggest shopping centers

Istanbul, Marmara Park is one of the biggest shopping centers in Europe.

The first shopping mall in Turkey that has implemented a galaxy design theme and having an investment value of EUR 220 million, Marmara Park Shopping Mall opened its doors in October 2012 with a gross area of approximately 204,160 m² and parking space for about 4,000 vehicles.

With more than 250 stores, a vast hypermarket, a DIY center, a huge consumer electronics outlet, cinemas, and an amusement park, İstanbul Marmara Park Shopping Mall offers its visitors a wide variety of options and products to choose from, along with unlimited fun.





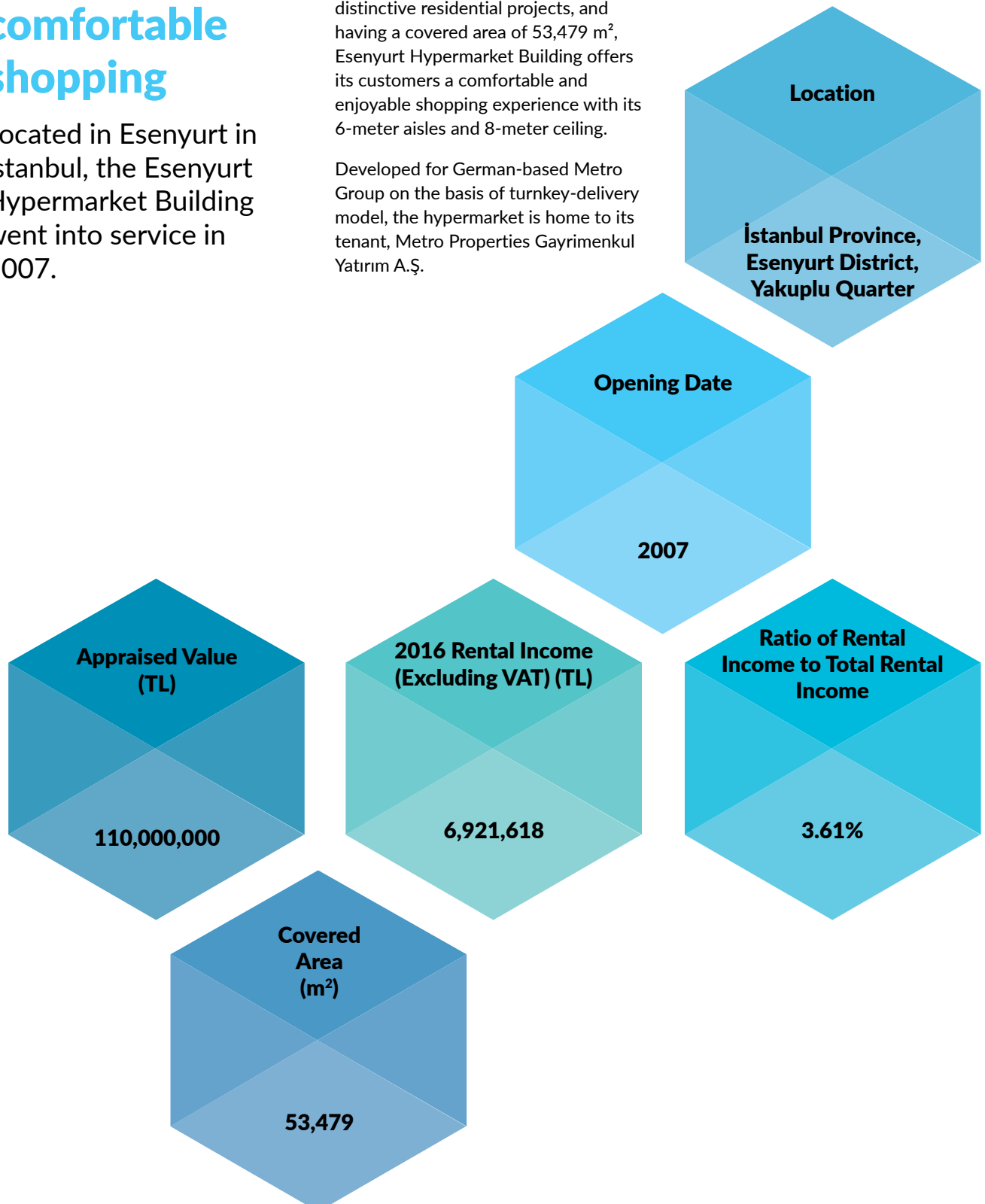
Istanbul Esenyurt Hypermarket Building

Spacious venue, comfortable shopping

Located in Esenyurt in İstanbul, the Esenyurt Hypermarket Building went into service in 2007.

Developed by İş REIC in Esenyurt that provides the setting for significant, distinctive residential projects, and having a covered area of 53,479 m², Esenyurt Hypermarket Building offers its customers a comfortable and enjoyable shopping experience with its 6-meter aisles and 8-meter ceiling.

Developed for German-based Metro Group on the basis of turnkey-delivery model, the hypermarket is home to its tenant, Metro Properties Gayrimenkul Yatırım A.Ş.





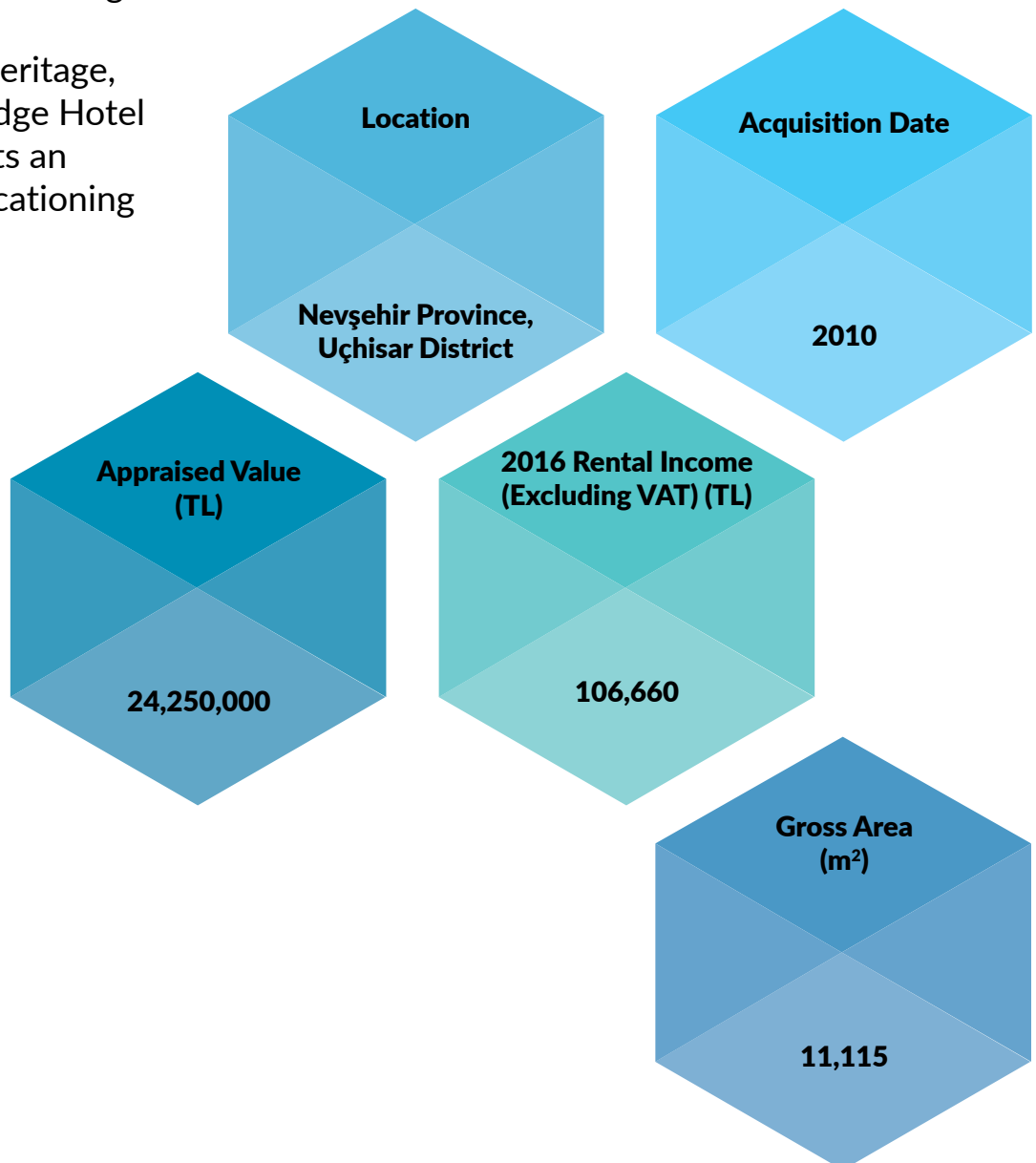
Nevşehir Kapadokya Lodge Hotel

Located in Cappadocia, one of the crossroads of tourism

Situated in Nevşehir that boasts fascinating historical and geographical heritage, Kapadokya Lodge Hotel offers its guests an unmatched vacationing experience.

Presenting its guests with a privileged and comfortable stay with its high quality management and service, Kapadokya Lodge Hotel is set in Cappadocia, one of the crossroads of tourism, and stands out for its architecture that represents the geographical texture and historical heritage of the Central Anatolia Region. The four-star Kapadokya Lodge Hotel that is rented out to İş Merkezleri Yönetim ve İşletim A.Ş. has 140

standard and 4 large rooms, along with one accessible room and one 76-m² suite. The facility furnishes high quality service to its guests seeking a relaxing, rejuvenating and entertaining vacation with its local cuisine of traditional flavors offered in two indoor and outdoor restaurants, and with sports and amusement activities including basketball, volleyball, tennis on quartz sand court, mini football, billiards, table tennis, swimming pools and orchards.



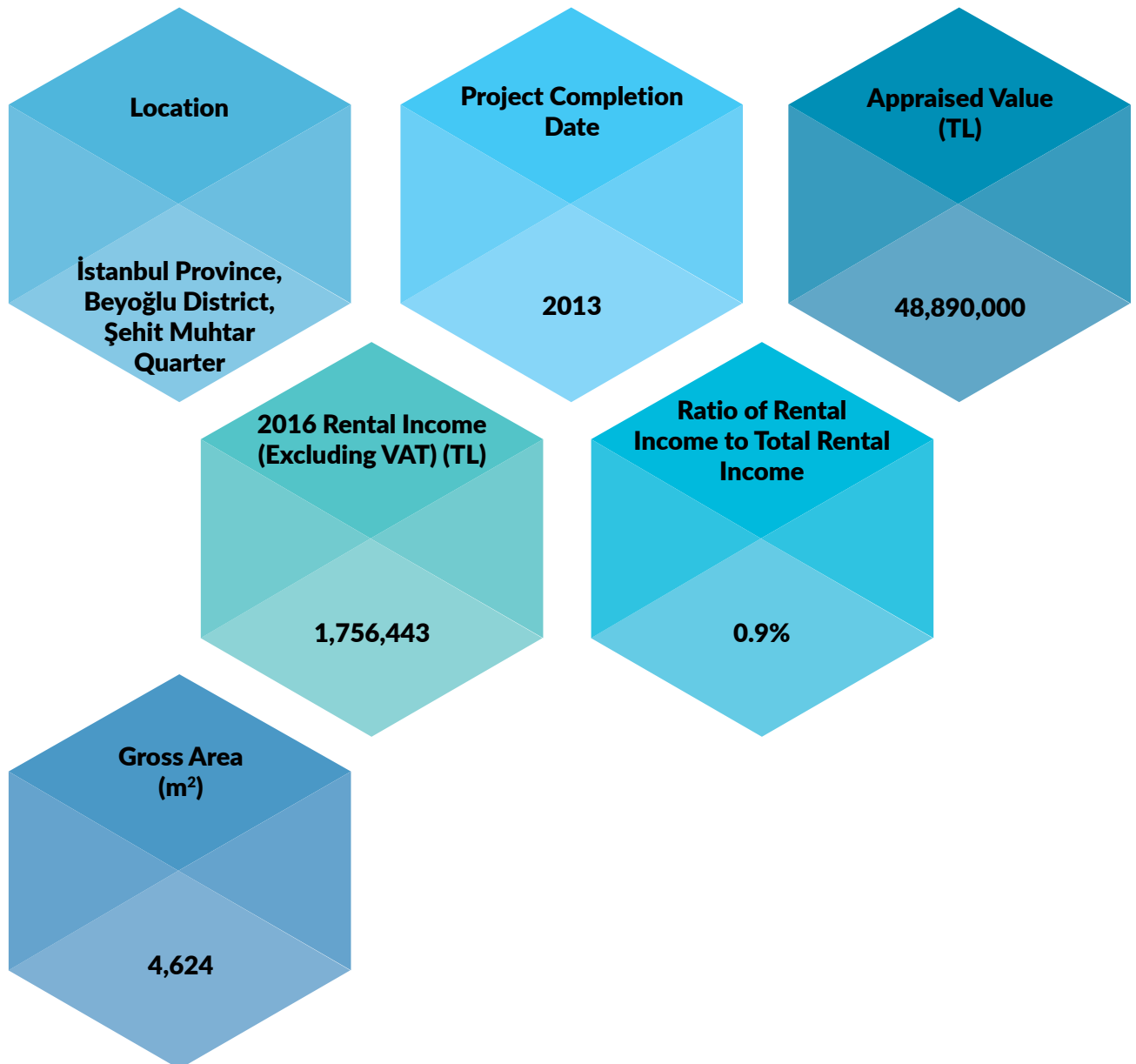


Istanbul Taksim Office Lamartine

In İstanbul's busiest area

Office Lamartine project reflects the altered visage of Taksim.

Having a leasable area of 3,856 m² and intended to meet the need for office spaces in and around Taksim, the busiest, high-potential spot in İstanbul, Office Lamartine is located at the intersection of Cumhuriyet and Lamartine avenues. The construction of the project was brought to completion in March 2013.



Sign of the City
Awards 2015
Kazanan Proje



Istanbul İşbank Technology and Operation Center

Solid infrastructure and superior architectural features

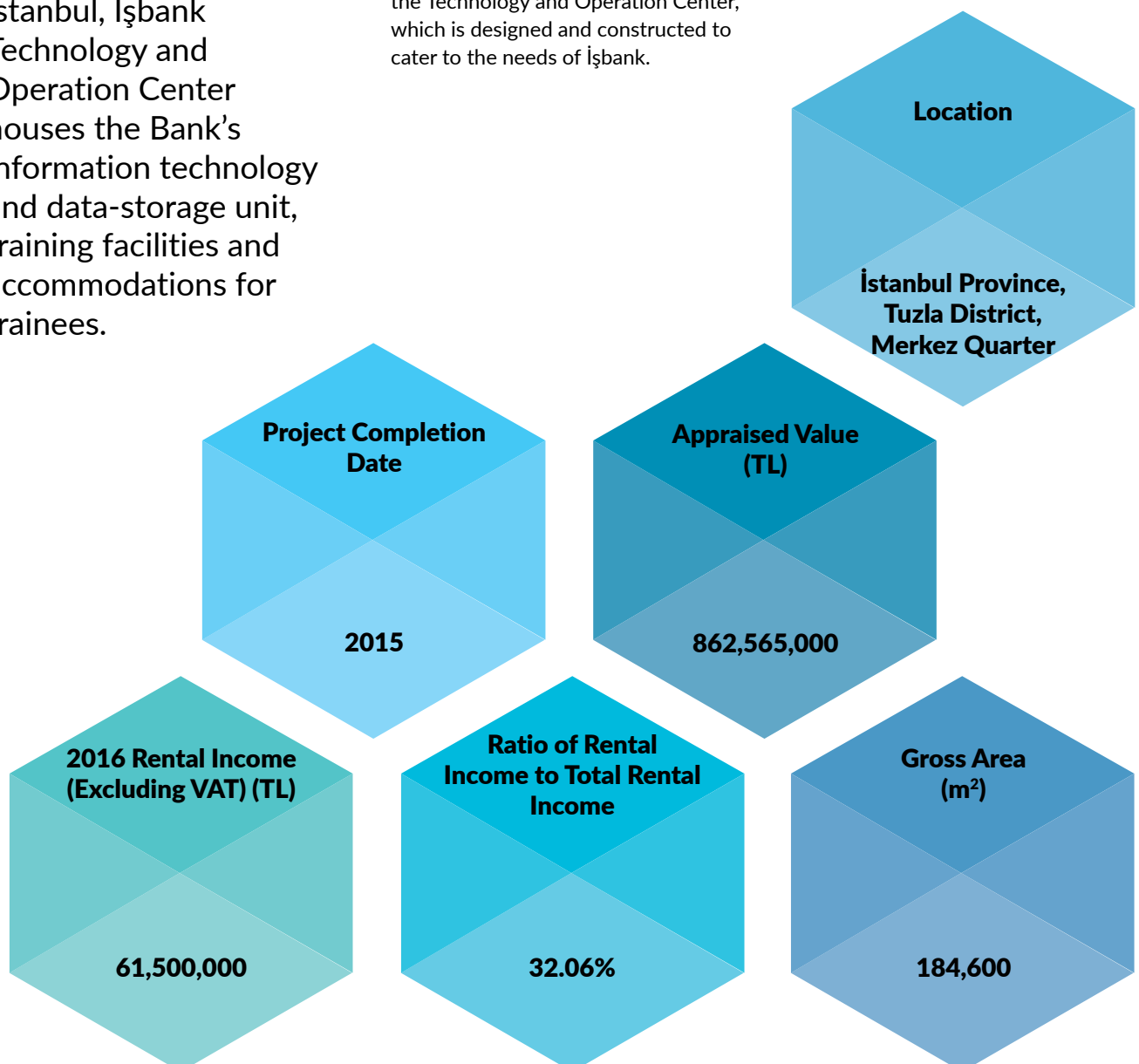
Situated in Tuzla, İstanbul, İşbank Technology and Operation Center houses the Bank's information technology and data-storage unit, training facilities and accommodations for trainees.

Located on a 44,393.35 m² land in İstanbul's Tuzla district, which is gradually turning into a field of commercial attraction with the relocation of company head offices and operation departments to this district, the Technology and Operation Center houses an information technology and data-storage unit, training facilities and accommodations for employees attending the training programs.

Operations started by early 2016 at the Technology and Operation Center, which is designed and constructed to cater to the needs of İşbank.

While the architectural design of the project bears the signature of SOM (Skidmore, Owings & Merrill LLP) and Design Group, construction was realized by Koray İnşaat.

İstanbul İşbank Technology and Operation Center was awarded in the "Best Office" category at the Sign of the City Awards 2015.



Sign of the City
Awards 2015
Kazanan Proje



İstanbul Tuzla Mixed-Use

A valuable location for investing

İstanbul Tuzla Mixed-Use is set in a location that is valuable in terms of investing and central in terms of access.

Tuzla Mixed-Use is located right next to the Technology and Operation Center in Tuzla, an İstanbul district with high development potential.

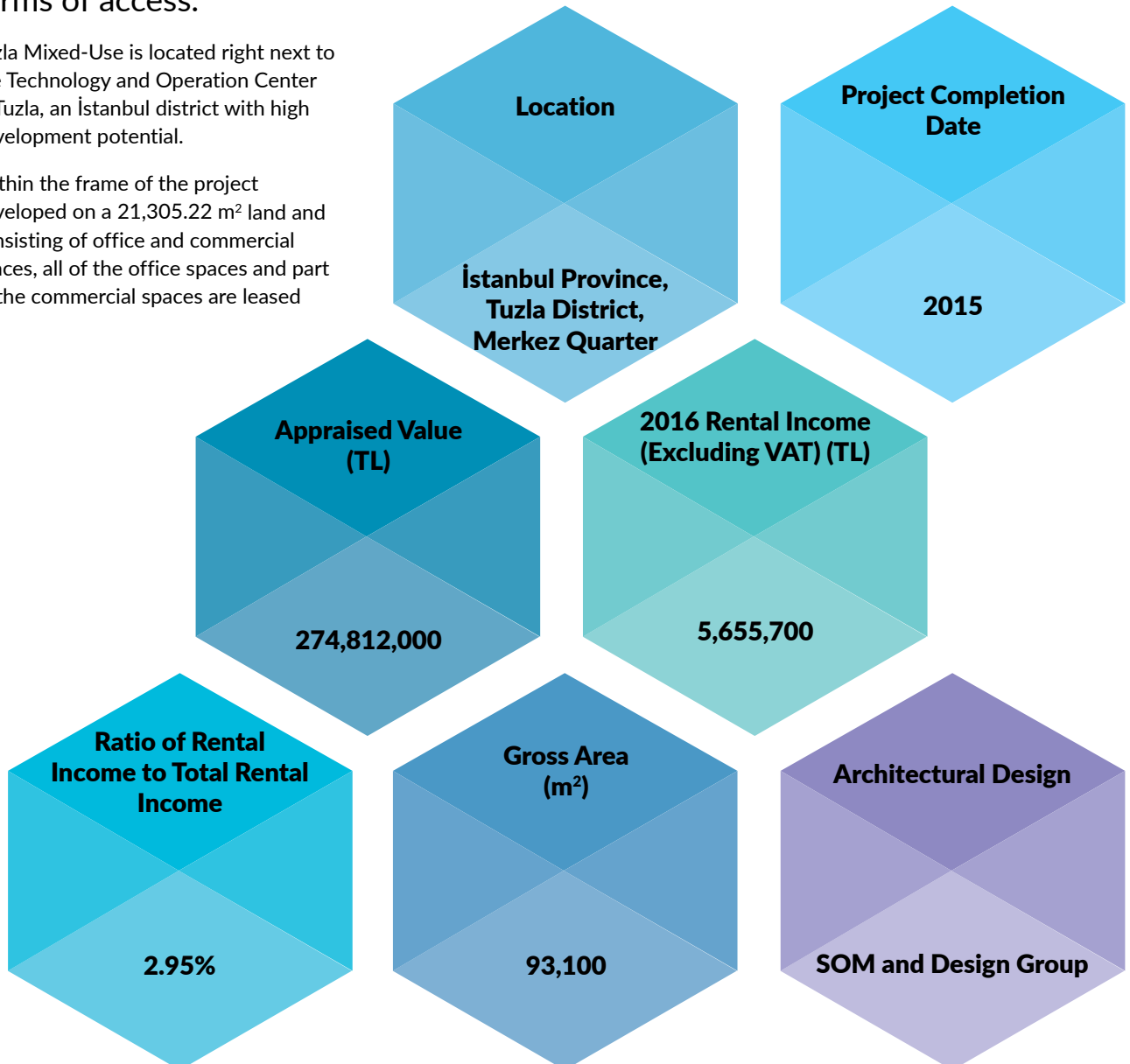
Within the frame of the project developed on a 21,305.22 m² land and consisting of office and commercial spaces, all of the office spaces and part of the commercial spaces are leased

to Türkiye Şişe ve Cam Fabrikaları A.Ş. The activities are underway to rent out the independent sections in Meydan Çarşı Shopping Mall and the gross annual rental income projected to be derived on the entire project is around TL 16-17 million.

Its location has transformed Tuzla and environs into a very valuable district both with respect to living and investing. These qualities acted as a magnet resulting in the relocation

of the head offices and operation departments of many companies to this district, and in turn, in a rapid increase in the investments being made, which played a big part in the development of the area, turning it into a field of attraction.

The project's architectural design is the result of a collaboration between the world-famous SOM (Skidmore, Owings & Merrill LLP) and Design Group.



* T. Şişe ve Cam Fabrikaları A.Ş. moved in to Tuzla Mixed-Use Project in September 2016, and the rental income represents partial rental income.



Istanbul Financial Center Project

Offices and commercial units at the heart of IFC

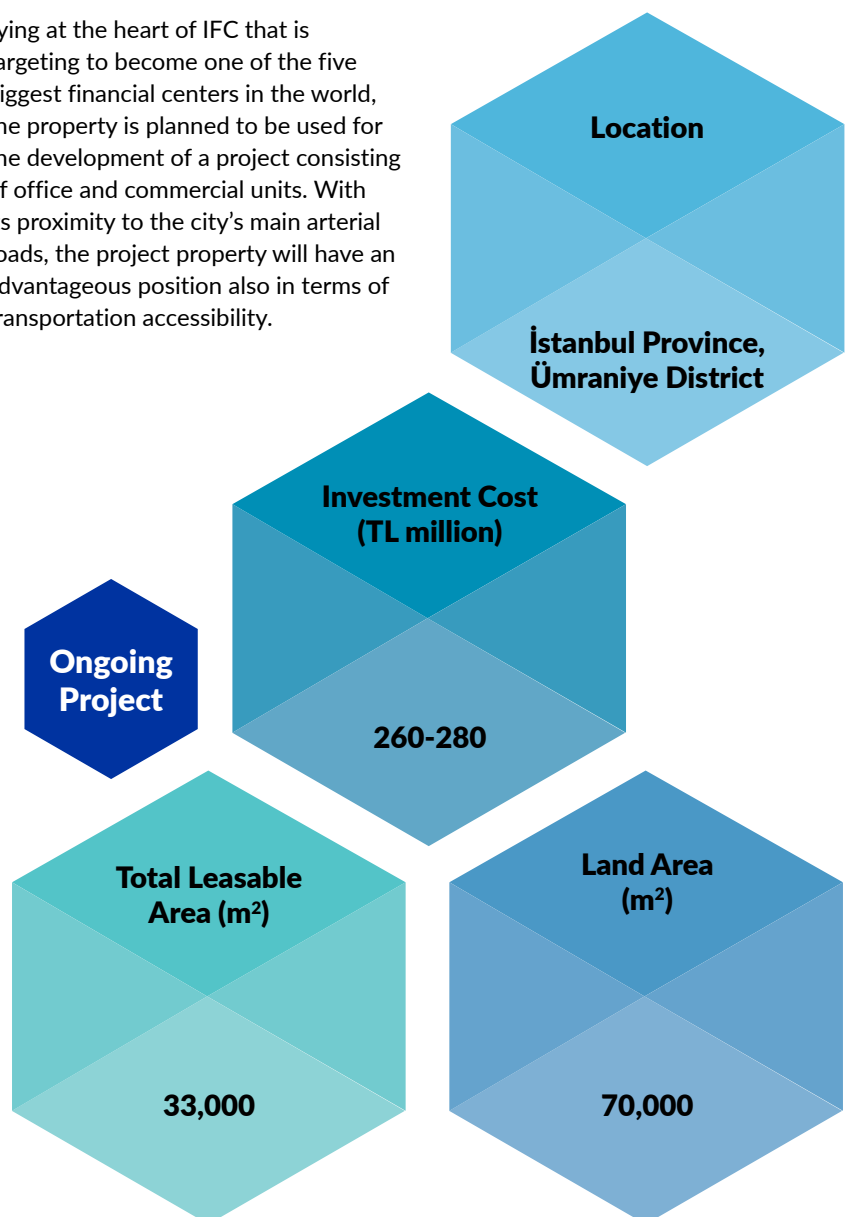
The financial center project being developed by İş REIC is located right at the heart of IFC that has set its sights on being one of the world's top 5 financial centers.

Presented as one of the most remarkable projects of late, İstanbul International Financial Center (IFC) will not only reposition Turkey in the international market, but will also likely alter the living standards in the area.

İş REIC has purchased a property within IFC to develop a project consisting of office and commercial units, where it develops a project with an approximate leasable/sellable area of 33,000 m².

The building permit for the project was received in 2015, and construction work continued in 2016. It is targeted to be completed in the years ahead, concurrently with other companies' projects taking place in the IFC. The project's forecasted investment cost is TL 260-280 million.

Lying at the heart of IFC that is targeting to become one of the five biggest financial centers in the world, the property is planned to be used for the development of a project consisting of office and commercial units. With its proximity to the city's main arterial roads, the project property will have an advantageous position also in terms of transportation accessibility.





İstanbul Kartal Manzara Adalar Project

A calm and pleasant life

Positioned in one of the nicest and most valuable locations on the Asian side of İstanbul, Manzara Adalar promises a calm and pleasant life.

Situated in Kartal, İstanbul, and bearing the signature of the globally renowned architecture firm Perkins Eastman, Manzara Adalar is a mixed-use project consisting of a total of five blocks, three residential and two office blocks, and also comprising commercial units that will contribute to the impeccability of this life center. Designated as an investment region by İş REIC, Kartal is a developing district which still presents

further growth potential and is one of the nicest and most valuable locations on the Asian side.

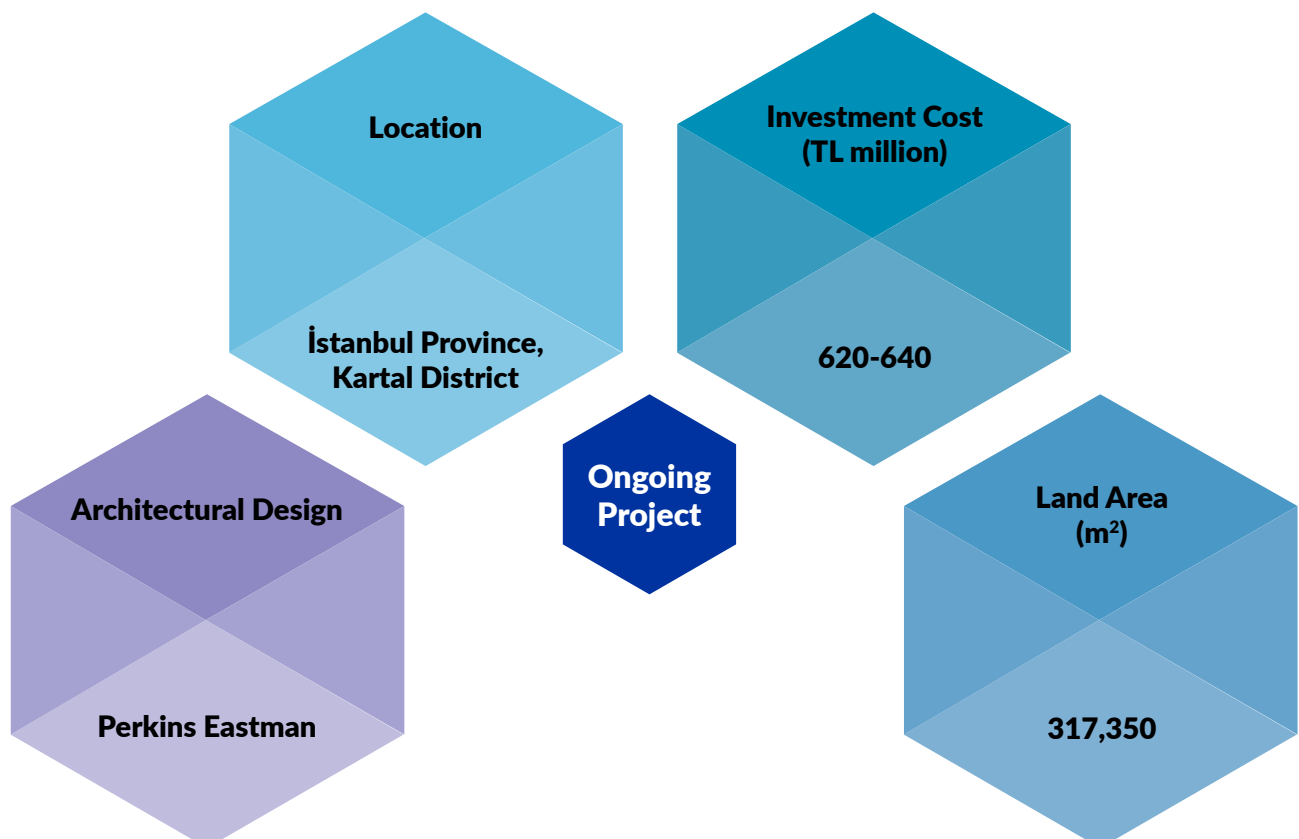
Rising to a dazzling view of the islands and situated within 1.5 km walking distance to the seaside, Manzara Adalar project enjoys a central location that is right in the middle of the road, rail, air and sea transportation network. Comprising 975 units covering different apartment types ranging from 1+1 to 5+1 flats and offices and commercial units, the project has an investment cost of TL 620-640 million.

As well as the high investment value presented by virtue of its location, Manzara Adalar opens the doors to a peaceful life in the heart of İstanbul. 4 minutes from D-100 motorway, 22 minutes from the Bosphorus Bridge and 25 minutes from the FSM Bridge, the project is also close to critical spots in the district, such as hospital,

courthouse, universities, train station and subway station in the district, while it is only 19 kilometers from Sabiha Gökçen Airport. The project promises a relaxed and enjoyable life with its indoor/outdoor swimming pool, outdoor children's pool, reflecting pools and walking paths, fitness center, SPA, hobby rooms, kids club and multipurpose sports complex.

Named the "Premium Project" in the "Best Marketing Campaign" category at the Sign of the City Awards 2015, Manzara Adalar claimed the premium project title in "Best Residence" and "Best Mixed-Use Project" categories in 2016 and was also awarded in the "Best High-Rise Residence" category.

Manzara Adalar is slated for delivery in the first quarter of 2018.





İzmir Ege Perla Project

The first representative of novelties

İzmir Ege Perla Project presents an original concept that combines traditional İzmir lifestyle and modern architecture.

Regarded as the “New City Center” of İzmir, Ege Perla project is located on a plot of 18,392 m². Having a total leasable area of 23,500 m², the project comprises residential units in different sizes and plans ranging from 1+1 to 5+1 executive unit overlooking the Gulf of İzmir and office units offering well-lit and spacious working spaces,

in addition to the semi-open shopping mall that will host prestigious brands.

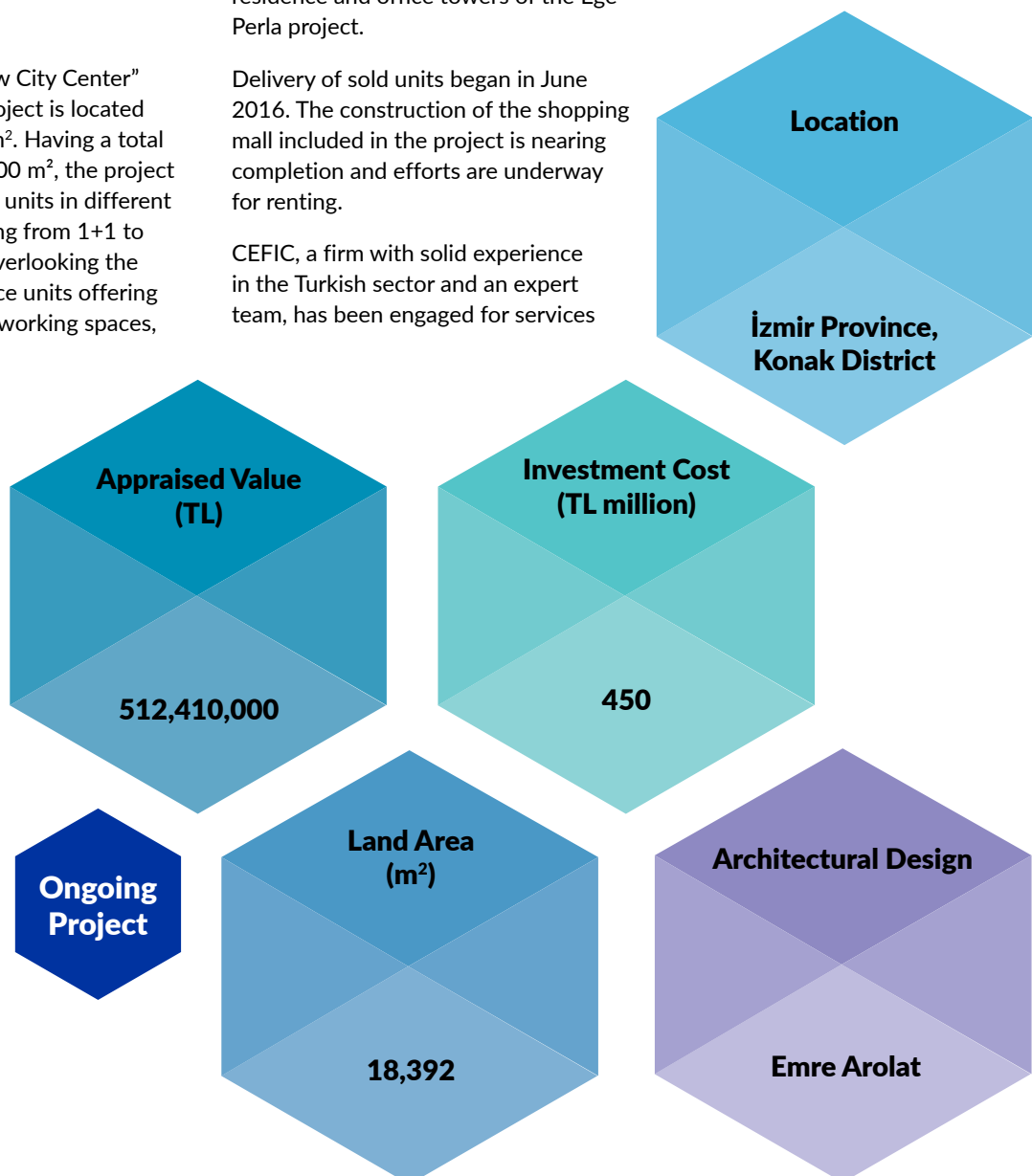
With an investment value of approximately TL 450 million and the first mixed-use project in the area, Ege Perla has been realized to blend seamlessly into the traditional lifestyle. Inspired by the old İzmir buildings, the project is designed by world-renowned architect Emre Arolat.

During 2016, Keller Williams company was engaged for letting the units in the residence and office towers of the Ege Perla project.

Delivery of sold units began in June 2016. The construction of the shopping mall included in the project is nearing completion and efforts are underway for renting.

CEFIC, a firm with solid experience in the Turkish sector and an expert team, has been engaged for services

related to renting out the shopping mall included in the project. It is targeted to create a tenant mix and concept with a focus on the needs and expectations of İzmir and its local people at the Ege Perla shopping mall, which is a magnet for numerous domestic and international brands as well as the local ones in İzmir. The mall is envisaged as a true city park with its architecture, brand mix and commercial spaces, and a spot frequented by people of all ages as the first representative of innovations in the area.



Sign of the City
Awards 2015
Kazanan Proje



inistanbul



İstanbul İnistanbul Project

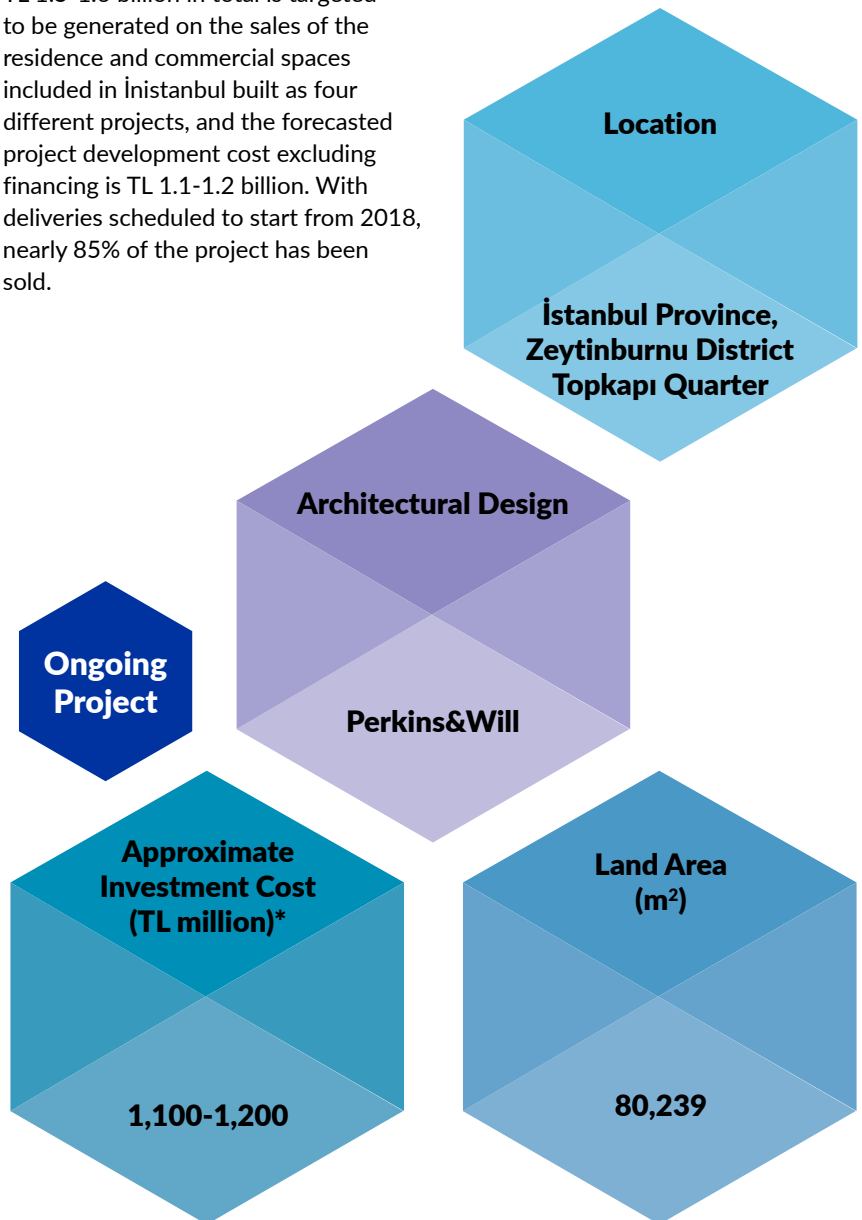
Successful sales performance

TL 1.5-1.6 billion in total is targeted to be generated on the sales of the units included in İnistanbul built as four different projects

Within the scope of the cooperation between İş REIC and Timur Gayrimenkul (Nef), project development continues on the plot located in Zeytinburnu district, one of the longest-established residential areas in İstanbul, and equally owned by the two companies. The world's leading creative architecture firm Perkins & Will has been engaged for the project developed on the 80,000 m² plot. With the construction work in progress, the project is just 100 meters from the subway station and has direct access to tram and metrobus lines. The project is differentiated with its proximity to the city's central areas such as Zincirlikuyu, Çağlayan, Yenikapı, Bakırköy, Ataköy and Atatürk Airport.

Easily reached from all parts of the city, İstanbul İnistanbul Project stands out with 2,740 units ranging from studios to 4+1 flats, rich mix of social facilities, green areas and advantageous payment options. Comprising of residential units and a small number of commercial spaces, the project also incorporates Nef's proprietary Foldhome system. TL 1.5-1.6 billion in total is targeted to be generated on the sales of the residence and commercial spaces included in İnistanbul built as four different projects, and the forecasted project development cost excluding financing is TL 1.1-1.2 billion. With deliveries scheduled to start from 2018, nearly 85% of the project has been sold.

İstanbul İnistanbul project was a finalist in the "Best High-Rise Residence", "Best Marketing Campaign" and "Best Architectural Design Concept" categories and was awarded in the "Best Architectural Design Concept" category at the Sign of the City Awards organized by Hürriyet Newspaper.



* The investment cost is the full investment cost jointly undertaken with NEF.



İstanbul Tuzla Çınarlı Bahçe

A project with fine details

Çınarlı Bahçe housing project offers a life at high standards.

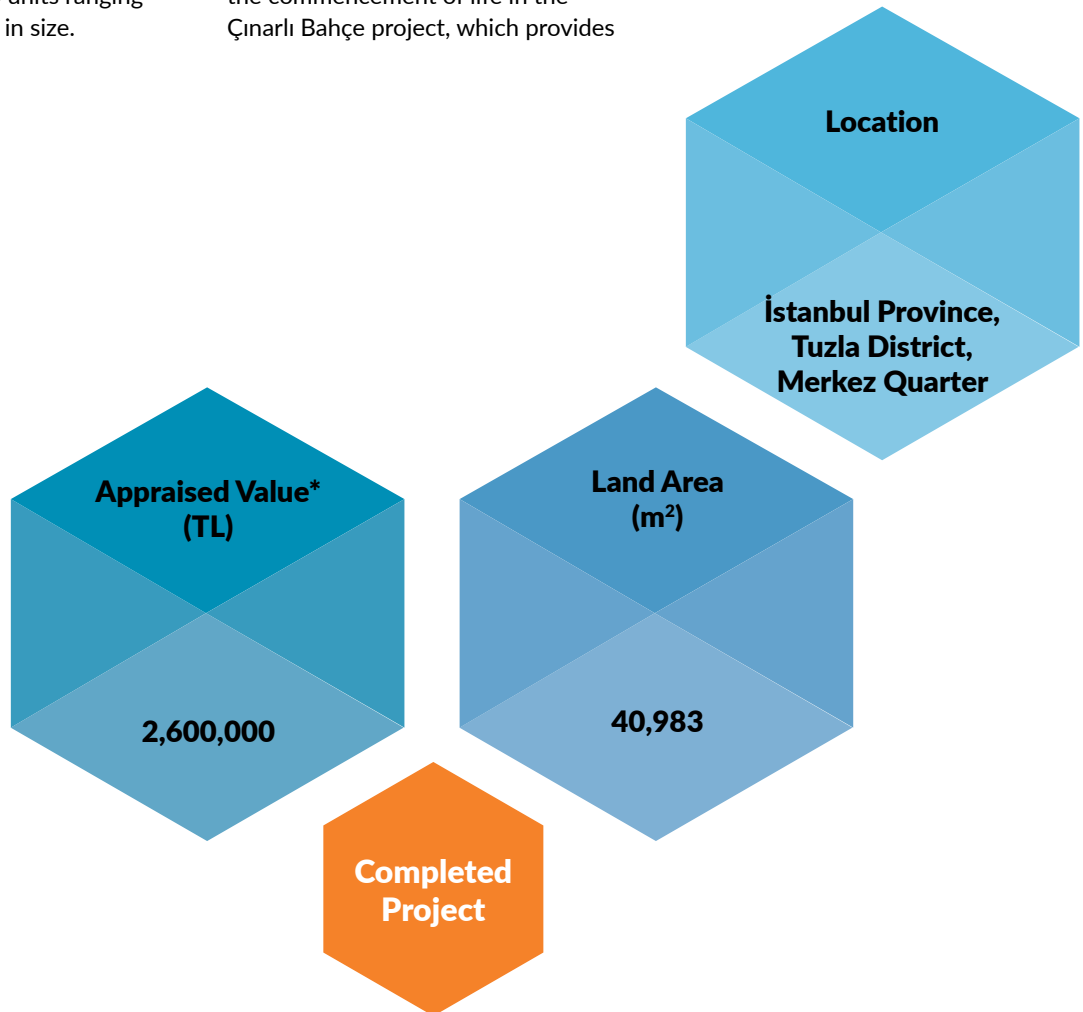
Putting into life the beauties of a “New Life in İstanbul” in comfortable houses designed in a modern architecture, the project consists of 476 units ranging between 58 to 212 m² in size.

With each detail carefully planned, Çınarlı Bahçe additionally features indoor/outdoor parking lots, indoor/outdoor swimming pools, a fitness center, a nursery, children's play grounds, courts, walking paths, indoor/outdoor social facility, supermarket and other commercial service areas.

With its construction contracted out to Mesa Mesken Sanayii A.Ş., sales of the units in the project began by late October 2011. August 2013 marked the commencement of life in the Çınarlı Bahçe project, which provides

its residents with a green living space through its rich landscaping and protected woods. Kanyon Yönetim İşletim ve Pazarlama A.Ş. provides the management consultancy for the project where sales are finalized.

Çınarlı Bahçe project was honored with the “Best High-Rise Residence” award at the Sign of the City Awards, one of the most prestigious recognition programs in the real estate sector.



* Appraised value of the commercial units.

Convenience Translation into English of the Independent Auditors' Report Related to Annual Report Originally Issued in Turkish



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Fax +90 (216) 681 90 90
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To the Board of Directors of

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi,

Auditor's Report on the Board of Directors' Annual Report

We have audited the accompanying annual report of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") for the year ended 31 December 2016.

Board of Directors' Responsibility for the Annual Report

Pursuant to the article 514 of the Turkish Commercial Code numbered 6102 ("TCC") and Communiqué on the Principles of Financial Reporting In Capital Markets numbered II – 14.1 ("the Communiqué"), management is responsible for the preparation of the annual report fairly and consistent with the financial statements and for such internal control as management determines is necessary to enable the preparation of such annual report.

Auditors' Responsibility

Our responsibility is to express an opinion on the Company's annual report based on our audit in accordance with article 397 of the TCC and the Communiqué whether the financial information included in the accompanying annual report is consistent with the audited financial statements in accordance with the independent audit report dated 27 January 2017 expressed in the auditors' report.

Our audit has been conducted in accordance with the Standards on Auditing which is a component of the Turkish Auditing Standards ("TAS") published by the Public Oversight Authority. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information included in the annual report is consistent with the financial statements and provide fair presentation. An audit also includes performing audit procedures in order to obtain audit evidence about the historical financial information. The procedures selected depend on the auditor's judgment. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial information included in the annual report is consistent, in all material respects, with the audited financial statements and provides a fair presentation.

Report on Other Regulatory Requirements

In accordance with the third clause of the article 402 of the TCC, no material issue has come to our attention that shall be reported about the Company's ability to continue as a going concern in accordance with TAS 570 Going Concern.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

A member firm of KPMG International Cooperative

Erdal Tıkmak, SMMM
Partner
24 February 2017
İstanbul, Turkey

Dividend Policy

The dividend distribution proposal of the Board of Directors is discussed at the General Assembly and it is decided whether to pay out dividends, as well as its manner and timing.

The Company's articles of association stipulate that first dividends in the rate and amount determined by the CMB are to be distributed from the distributable profit.

The Board of Directors adopted a dividend distribution policy based on the principle of proposing to distribute at least 30% of the distributable profit in bonus shares or in cash to the General Assembly, giving due consideration to:

- maintaining the delicate balance between shareholders' expectations and the Company's need to grow, and
- the Company's profitability.

There are no privileges regarding distribution of profit, and dividend distribution is carried out within the legally prescribed period of time.

In the event that the Board of Directors proposes against distribution of profit to the General Assembly, information on the reasons therefor and the usage manner of retained earnings will be presented to the shareholders at the General Assembly, incorporated in the annual report, and disclosed publicly.

The Company's articles of association address distribution of advances on profit share, and advances on dividends may be distributed to shareholders subject to capital market requirements and regulations.

Profit Distribution Table

İŞ GAYRİMENKUL YATIRIM ORTAKLIĞI A.Ş. Profit Distribution Table for the Year 2016 (TL)			
1.	Paid-in/Issued Capital		850,000,000
2.	General Legal Reserve (based on legal records)		41,101,237.87
	Information regarding privileges in profit distribution according to the Articles of Association, if any, information on such privileges		There are no privileges in profit distribution
		Based on CMB	Based on Legal Records
3.	Profit for the Period	420,511,402.00	155,171,857.18
4.	Taxes	0.00	0.00
5.	Net Profit for the Period	420,511,402.00	155,171,857.18
6.	Prior Period Losses	0.00	0.00
7.	General Legal Reserve	7,758,592.86	7,758,592.86
8.	NET DISTRIBUTABLE PROFIT FOR THE PERIOD	412,752,809.14	147,413,264.32
9.	Donations Made within the Year	100,000.00	
10.	Net Distributable Current-Year Profit Including Donations	412,852,809.14	
11.	First Dividend to Shareholders	106,250,000.00	
	- Cash	42,500,000.00	
	- Bonus	63,750,000.00	
	- Total	106,250,000.00	
12.	Dividends For Preferred Shareholders	0.00	
13.	Dividends For Others	0.00	
	- Board Members	0.00	
	- Employees	0.00	
	- Other than Shareholders	0.00	
14.	Dividends for Usufruct Shares	0.00	
15.	Second Dividend to Shareholders	21,250,000.00	
16.	General Legal Reserves	2,125,000.00	
17.	Statutory Reserves	0.00	
18.	Special Reserves	0.00	
19.	EXTRAORDINARY RESERVES	283,127,809.14	17,788,264.32
20.	Other Sources for Distribution		0.00
	- Prior Period Profit		0.00
	- Extraordinary Reserves		0.00
	- Other Reserves Distributable As Per Law and Articles of Association		0.00

INFORMATION ON DIVIDEND DISTRIBUTION

INFORMATION ON DIVIDEND PER SHARE

	GROUP	TOTAL DIVIDENDS		TOTAL DIVIDENDS/ NET DISTRIBUTABLE PERIOD PROFIT	OF TL 1 NOMINAL VALUE DISTRIBUTED PROFIT	
		CASH (TL)	BONUS (TL)	RATIO (%)	AMOUNT (TL)	RATIO (%)
NET	A	91,071.43	91,071.43	0.04%	0.150	15%
	B	63,658,928.57	63,658,928.57	30.85%	0.150	15%
	TOTAL	63,750,000.00	63,750,000.00	30.89%	0.150	15%

Corporate Governance Principles Compliance Report

PART I - STATEMENT OF COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES

İş REIC espoused the four main elements of Corporate Governance Principles, which are Fairness, Transparency, Accountability and Responsibility, and observes compliance with them in its activities. Our Company closely monitors the development of the Corporate Governance practices both in the world and in our country, and believes in the necessity to achieve compliance with these principles in order to maintain successful business practices and to generate long-lasting added value to investors.

Our Company adheres to all of the Corporate Governance Principles that are compulsory to be implemented, and takes care to maximize its adherence with regards to all principles. Optional corporate governance principles are addressed under the relevant headings in the following sections. There were no conflicts of interest that arose during the reporting period on account of non-implementation of optional principles.

Our Company exercises the necessary sensitivity for compliance with Corporate Governance Principles, and established the Corporate Governance Committee in 2007. The Committee's primary duties include monitoring compliance with corporate governance principles, undertaking improvements in these areas, and presenting recommendations to the Board of Directors. The Committee follows up the changes in legislation, with a particular focus on investor relations activities in respect of capital markets, and regularly reviews the Company's corporate governance practices, constantly identifies improvement areas, and continually improves the Company's corporate governance system through new implementations enforced.

Corporate governance rating of our Company has been revised as "93.41" based on the review performed in 2016 by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA) for the assessment of the Company's compliance degree with the Corporate Governance Principles. The Company was given the following ratings in the four main sections: Shareholders 91.49, Public Disclosure and Transparency 98.46, Stakeholders 95.66, Board of Directors 90.21.

The rating report prepared by SAHA upon the period review is posted on the Company website in the "Investor Relations" section, under the heading "Financial Data and Reports".

The Company's Corporate Governance Principles Compliance report is also available on the Company website in the "Investor Relations" section, under the heading "Corporate Governance".

PART II - SHAREHOLDERS

2.1. Investor Relations Department

The Company's "Investor Relations Department" has been active since 28 January 2005 within the relevant regulations of the CMB. Prior to each Board meeting, the Department prepares a report to be submitted to the Board of Directors about the Department's activities during the period, investors' and brokerages' remarkable assessments and analyses. The Department manager physically participates in the Board of Directors meetings. Serving as a bridge between the Department and the Board of Directors, the Corporate Governance Committee, which actively oversees the Department's activities, meets prior to each Board meeting, and evaluates the activities carried out by the Department during the reporting period. Following the meeting, presentations about the topics that have been discussed in the Board meetings are shared with the Board of Directors during the same day. Besides monthly reports, "Annual Investor Relations Activity Report" is drawn up following the end of the fiscal year. As indicated in the operating principles of the committee, the Investor Relations Department also handles the secretarial tasks of the Corporate Governance Committee.

The Company's Investor Relations Department operates under the name "Investor Relations and Corporate Compliance" within the "Investor Relations and Corporate Compliance, Risk Management Group". The Department manager is Aysegül Şahin Kocameşe, Head of the Investor Relations and Corporate Compliance, Risk Management Group. The Department manager holds Capital Market Activities Level 3 License and Corporate Governance Rating License. The Department manager serves as a member of the Corporate Governance Committee in accordance with Article 11 of the Corporate Governance Communiqué. The manager of the Investor Relations Department, being a member of the Corporate Governance Committee, participated in all of the Committee meetings held during the year, provided information to the Committee about the Department's activities and the material developments that took place during the reporting period, and took active part in the improvement and rating of corporate governance practices.

Corporate Governance Principles Compliance Report

Contact details for the individuals working in the Investor Relations Department are presented below:

Contact Person	Phone Number	E-mail Address
Ayşegül Şahin Kocameşe Head of Investor Relations	0212-325 23 50	aysegul.sahin@isgyo.com.tr
Mine Kurt Yıldırım Assistant Manager	0212-325 23 50	mine.kurt@isgyo.com.tr
Begüm Olgaç Specialist	0212-325 23 50	begum.olgac@isgyo.com.tr

Investor Relations Department consistently and effectively manages matters related to the conduct of General Assembly Meetings, and particularly those related to the exercise of shareholders' rights, public disclosure and provision of company-related information, as well as share capital increases and the Company's rating processes.

During the reporting period, the Investor Relations Department held one-on-one meetings with domestic and international investment companies at the Company's headquarters, took part in conferences and roadshows organized by brokerages, one in Turkey and three abroad, and participated in teleconferences at the Company headquarters; within this context, the Company had contacts with more than 80 people from nearly 60 investment companies.

The majority of parties the Company had contact with during the reporting period consisted of analysts and fund managers from local and foreign brokerages and asset management companies.

During the year, the Investor Relations Department responded to nearly 320 queries, most of which were received by e-mail. Information requests received from local and foreign investors or brokerages were responded to with careful observation of all matters with respect to public disclosure, and particularly the legislation and the Company's Information Policy. About 72% of all requests for information were of an institutional nature, while the remaining 28% consisted of individual queries.

Shareholders may convey their information requests by contacting the Investor Relations Department employees directly or by sending an e-mail to the Department's e-mail address or using the contact form available on the website. Shareholders usually contact the Department employees directly or via the Department's e-mail account, and rarely use the contact form on the website.

In addition to investors' queries, support is extended for information requests, surveys and academic studies within the scope of research conducted by universities and various public institutions.

The Investor Relations Department regularly maintains proper records both of the written and oral queries that it receives and of the responses given. Besides handling requests for information made to the Company, this Department also regularly monitors the reports and bulletins published by brokerages in which any mention of the Company is made, while providing the necessary support to brokerages for their reporting processes.

2.2. Exercise of Shareholders' Right to Obtain Information

İş REIC's Information Policy is based on transparency and fairness, and the Company adheres to İş REIC Code of Ethics, which has been in place since 2003, in all of its public disclosure activities, and treats every shareholder equally, irrespective of the number of shares held thereby.

The Company's Information Policy was publicly disclosed and made available on the company website for the information of all shareholders and stakeholders. The policy is reviewed regularly in view of the applicable regulations and the Company's changing needs.

Shareholders request information by directly contacting the Investor Relations Department employees, or by sending an e-mail either to the Department's e-mail address or using the communication form available on the website.

During the reporting period, information requests received from local and foreign investors or brokerages were responded to with careful observation of all matters with respect to public disclosure, and particularly the legislation and the Company's Information Policy. The Investor Relations Department regularly keeps necessary records of written or verbal information requests and the responses given thereto.

The questions received by the Investor Relations Department during the reporting period mostly related to projected income/ costs of the projects being developed by the Company, delivery timelines, and the rental processes of the properties covered in the portfolio, as well as the Company's financial status and future investment strategy.

The Company website is actively used to facilitate public disclosure and exercise of shareholder rights. Quarterly investor presentations in Turkish and English, as well as the balance sheet and income statement drawn up within the scope of financial statements, along with material event disclosures made through the Public Disclosure Platform (KAP) are prepared in Turkish and English and posted on the corporate website the same day. Moreover, those sections of the Company's corporate website that are subject to updates, particularly the information with a potential impact on the exercise of shareholder rights, are regularly updated. Thereby, accurate and up-to-date information is made available especially to investors and analysts in addition to various individuals or institutions that require information about the Company and its activities.

The corporate website incorporates the "Information Society Services" section as required by the Regulation governing the websites of equity companies published by the Ministry of Customs and Trade. Investors link to the Central Registry Agency (MKK) portal via the Information Society Services section and are able to access fundamental information about the Company also through this link.

Moreover, investors have access to stock performance data as well as to the Company's material event disclosures via a link on the "Investor Relations/Stock Performance" section provided by Foreks Bilgi İletişim Hiz. A.Ş. In addition, stock performance data is also provided in English.

Care is taken to publish announcements about the Company's activities, which will take place in the press, in national editions of newspapers with high circulation numbers. In addition, news and documents concerning ordinary and extraordinary General Assemblies of Shareholders are also posted on the corporate website.

Requests to appoint a special auditor have not been stipulated as an individual right in the Company's articles of association. During the reporting period, our Company did not receive any requests for the appointment of a special auditor.

2.3. Information about the General Assembly

The Annual General Assembly of Shareholders for 2015 convened on 24 March 2016 at the address İş Kuleleri, Kule 1, Kat: 41 Levent-Beşiktaş/İstanbul with 68.03% attendance, of which 68.03% were acting as proxies and 0.003% were acting in person. Besides shareholders, all Members of the Board of Directors participated in the meeting, as well as an authorized person from the independent audit firm and Company employees. Neither the Company's articles of association nor the Company's internal directive on the operating principles and procedures of the General Assembly contain any provisions precluding the media from attending the General Assembly. Although they were invited in the general assembly announcement, no members of the media attended the General Assembly.

Under the relevant requirements of the Turkish Commercial Code and the Ministry of Customs and Trade, the Company's General Assembly Meeting for 2015 was concurrently held on the Electronic General Meeting System hosted by the Central Registry Agency, and shareholders who are entitled to participate in the General Assembly Meeting were given the opportunity to electronically participate in the meeting, assign a proxy, make recommendations, voice their comments, and cast votes over this system.

The General Assembly process was conducted according to the Corporate Governance Principles in particular, and the provisions of the applicable capital market legislation and the Turkish Commercial Code (TCC) in general; the invitation for the meeting, including the agenda and sample proxy form, were published on the corporate website, Turkish Trade Registry Gazette, Public Disclosure Platform (KAP), and in a national newspaper. In addition to the announcements on the Public Disclosure Platform, invitation for the meeting was also made via the Electronic General Meeting System (e-GEM) and the e-Company (Companies Information Portal) of the MKK; documents pertaining to the General Assembly were also uploaded to e-GEM. In order to ensure that both Turkish and foreign investors were informed about meeting matters in advance, a "General Assembly Informative Document" was prepared in Turkish and English. This document, as well as the proxy form sample, the agenda and the dividend distribution proposal of the Board of Directors along with the invitation were all published on the Company website. The 2015 Annual Report was made available at the Company's headquarters and on the website for investor review 21 days before the meeting date. All documents prepared in relation to the General Assembly were also uploaded to the MKK's Electronic General Meeting System.

Corporate Governance Principles Compliance Report

When preparing the agenda, the Board of Directors pays attention to take into consideration the matters communicated in writing by shareholders to the Company's Investor Relations Department for their incorporation in the agenda. At the time the agenda for the 2015 Annual General Assembly was being prepared, no such requests have been received by the Company.

Pursuant to Corporate Governance Principles, the Company publicly disclosed in a material event disclosure given prior to the General Assembly that the final list of independent board member nominees and their résumés are accessible on the home page and General Assembly sections of the corporate website, thus allowing shareholders to have information about independent board member nominees in advance.

In order to facilitate participation of shareholders in the General Assembly Meeting, due care was taken to hold the meeting in a place where majority of shareholders reside and to ensure that the right to participate in the meeting is exercised within the frame of the relevant regulations of the Ministry of Customs and Trade.

Pursuant to Corporate Governance Principles, prior to the meeting, shareholders were informed on the number of total votes that may be cast at the General Assembly, the privileges they incorporate, and the voting procedure.

At every stage of the meeting, shareholders are allowed to raise questions, advance proposals and even take the floor. All questions are answered and all proposals are given consideration as well. Since no questions or proposals were presented at the Annual General Assembly of Shareholders this year, these matters were not mentioned in the meeting minutes. Furthermore, all oral and written queries from the shareholders about the Company during the reporting period were answered prior to and after the General Assembly of Shareholders within the scope of the Company Information Policy.

Following the General Assembly, the meeting minutes were uploaded to the e-GEM, the minutes and the list of attendants were publicly disclosed via the Public Disclosure Platform, and was made available to shareholders by posting them under the heading "General Assembly Meetings" beneath the "Investor Relations" section of the Company website.

The General Assembly did not convene extraordinarily during the reporting period.

There is a Donations Policy in place, which sets out the principles and procedures applicable to the donations to be made by the Company. No changes were made to the policy during the reporting period.

As per article 19 of the Capital Market Law, the limit of the donations to be made by a company is to be set at the General Assembly Meeting. Under İş REIC's Company Donations Policy, the donation budget set aside for the Company's donations during 2016 and approved by the General Assembly is TL 115,000. In 2016, the Company donated TL 100,000 to the "July 15 Solidarity Campaign". This matter will be presented for the information of the shareholders in the General Assembly to be convened for the year 2016 pursuant to the Corporate Governance Principle numbered 1.3.10 and Article 6 of the CMB's Communiqué on Dividends (II-19.1).

None of the Board of Directors decisions passed during the reporting period required the affirmative votes of all of the independent Board members and needed to be referred to the General Assembly by reason of a negative vote and thus, required the incorporation of the act within the agenda.

During the General Assembly Meeting held during the year, Board of Directors Members were authorized to transact under articles 395 and 396 of the TCC concerning "prohibition on doing business with the Company, on borrowing from the Company" and "non-compete". During the reporting period, neither the Board Members, nor shareholders having management control, nor executives with administrative responsibility or their spouses or relatives by marriage unto the second degree engaged in any material transaction that might lead to a conflict of interest between the Company or its subsidiaries, performed a transaction of a commercial business nature on own or another's behalf that falls under the business scope of the Company or its subsidiaries, or joined another company dealing with the same kind of commercial affairs in the capacity of an unlimited partner.

2.4. Voting Rights and Minority Rights

The Company's capital is divided into 850,000,000 shares, which are made up of Group A shares that correspond to TL 1,214,285.68 and Group B shares that correspond to TL 848,785,714.32. Group A shareholders have the privilege of nominating candidates to the Board of Directors elections. One Member of the Board of Directors is elected from among the candidates nominated by Group B shareholders, with all of the remaining Members being elected from among the ones nominated by Group A shareholders. Candidates for the Board of Directors are presented for the information of the shareholders during the General Assembly and are appointed by the decision adopted in the General Assembly.

Article 14 of the CMB Communiqué on the Principles Regarding Real Estate Investment Companies (III-48.1) sets out that shareholders in a REIC may issue shares incorporating the privilege of nominating candidates for election of Board Members. REICs are not allowed to issue any securities that grant privileges other than the one to nominate candidates to the election of Board of Directors membership. Accordingly, the Company's articles of association contain no privileges regarding voting.

At the Company, each nominal value of TL 0.01 gives entitlement to one vote, and shareholders vote at General Assembly Meetings pro rata the total nominal value of the shares they hold, pursuant to article 434 of the Turkish Commercial Code. Principles in relation to voting at General Assembly Meetings are set out in the Company's internal directive on working principles and procedures of General Assembly, which has been laid down for approval at the General Assembly and has been publicly disclosed. The Company's articles of association grant no privileges in relation to voting.

There are no companies with which the Company has cross-shareholding relationship.

Save for legal regulations, the Company's articles of association do not incorporate additional stipulations regarding minority rights. Any additional stipulation for minority rights requires an amendment to the articles of association, which can be made through Company shareholders' volition in this regard. Since no such request has been received from shareholders as yet, such an amendment to the articles of association was not addressed in the agenda. There are no plans to make a change in this respect. Nonetheless, our shareholders' questions, opinions and comments received by our Company during the reporting period were responded to meticulously and without delay, irrespective of the number of the shares held.

2.5. Entitlement to Dividends

The Company's Dividend Policy is presented in the annual report and on the corporate website, under the "Policies" tab beneath the heading "Corporate Governance" in the "Investor Relations" section.

The Dividend Policy of the Company is presented below:

The dividend distribution proposal of the Board of Directors is discussed at the General Assembly and it is decided whether to pay out dividends, as well as its manner and timing.

The Company's articles of association stipulate that first dividends in the rate and amount determined by the CMB are to be distributed from the distributable profit.

The Board of Directors adopted a dividend distribution policy based on the principle of proposing to distribute at least 30% of the distributable profit in bonus shares or in cash to the General Assembly, while keeping a close eye on:

- maintaining the delicate balance between shareholders' expectations and the Company's need to grow,
- the Company's profitability.

There are no privileges regarding distribution of profit, and dividend distribution is carried out within the legally prescribed period of time.

In the event that the Board of Directors proposes against distribution of profit to the General Assembly, information on the reasons therefor and the usage manner of retained earnings will be presented to the shareholders at the General Assembly, included in the annual report, and disclosed publicly.

The Company's articles of association address distribution of advances on dividends, and advances on dividends may be distributed to shareholders subject to the applicable capital market regulations and requirements.

At the Annual General Assembly for 2015 fiscal year, it was decided to distribute dividends in the total amount of TL 156,220,000 to shareholders, breaking down as cash dividends worth TL 52,220,000, so that TL 0.07 (gross=net) (7%) dividend will correspond to each share with a nominal value of TL 1, and bonus shares worth TL 104,000,000. Cash dividend payout to shareholders was completed on 30 March 2016 and bonus share distribution on 11 May 2016.

The Board of Directors' proposal for dividend distribution in relation to 2016 period profit will be submitted to the approval of shareholders at the Annual General Assembly for 2016 fiscal year.

Corporate Governance Principles Compliance Report

2.6. Transfer of Shares

The Company's articles of association do not contain any provisions restricting the transfer of shares.

PART III – PUBLIC DISCLOSURE AND TRANSPARENCY

3.1. Company Internet Site and Its Content

The Company has its own website accessible at www.isgyo.com.tr. The website features trade registry information, the latest shareholder and management structure, detailed information about privileged shares, dates and issue numbers of the Turkish Trade Registry Gazettes in which amendments were promulgated along with the latest version of the Company's articles of association, material event disclosures, financial statements, annual reports and other public disclosure documents, agendas of general meetings, participation in meetings, meeting minutes, proxy voting forms, dividend policy, information policy, code of ethics, and frequently asked questions. Share purchase proposal, mandatory informative sheets drawn up for collecting proxy forms and similar forms are not posted on the website since the Company does not have any processes requiring the preparation of such documents, neither is the Company's policy concerning repurchasing of own shares as the Company does not have a program/policy for repurchasing its own shares. In the case that there exists a process requiring the preparation of the said documents, related documents will also be made available on the Company website. The website covers the matters specified in the Corporate Governance Principles. The website is also prepared in English for use by foreign investors. Both the Turkish and English versions of the website are regularly and simultaneously updated to better inform the investors.

In accordance with the Central Registry Agency (MKK) data published via the Public Disclosure Platform (KAP), the Company's shareholding structure is updated quarterly to show also the non-corporate or corporate shareholders directly holding 5% or higher interest in capital, or having voting rights. Upon public disclosure of financial statements and notes, summary financial statements drawn up in English are posted on the English website pursuant to the capital market legislation.

The corporate website covers the elements as described in the Corporate Governance Principles, and the information posted on the website are regularly reviewed. The website is also monitored with respect to its compliance with applicable regulations in terms of its format and content.

The corporate website incorporates the "Information Society Services" section as per the regulation governing the websites of equity companies published by the Ministry of Customs and Trade. Investors are able to link to the MKK portal via the Information Society Services section and to access fundamental information about the Company also through this link.

Moreover, investors have easy access to stock performance data as well as to the Company's material event disclosures via a link on the "Investor Relations/Stock Performance" section provided by Foreks Bilgi İletişim Hiz. A.Ş. In addition, stock performance data is also provided in English.

3.2. Annual Reports

The Company's annual reports are prepared in the content that will give the public opinion access to accurate and complete information about the Company's activities within the frame of Corporate Governance Principles, as well as other Capital Market regulations and applicable regulation of the Ministry of Customs and Trade.

Care is taken to make sure that the annual report covers detailed information on Board Members and committees, as well as basic information about the Company's activities. In this frame, the annual report contains Board Members' résumés, their powers and responsibilities in the Company and the outside positions they hold, whether they make any transactions within the Company's main business scope under the Company's legal entity or on the Company's capital market instruments, whether they enter into a borrowing relationship with the Company. Other information covered by the report includes financial rights provided to Board Members and Independent Members' declarations of interest, operating principles of the Board of Directors, number of Board meetings held during the reporting period, attendance to meetings, number of decisions passed and information on the adoption manner of these decisions; formation and operating principles of the committees set up under the Board of Directors, their activities during the reporting period, and the numbers of their meetings and decisions, as well as the Board of Directors' assessment on the activities of committees.

In addition, the annual reports also address changes in legislation that might have material impact on the Company's activities; disclosure of conflicts of interest, if any, between the Company and outsourced service providers in fields such as investment consultancy and rating, and the measures adopted to prevent conflicts of interest; information on important lawsuits brought

against the Company during the year and their potential outcomes; information on cross-shareholding relations in which more than 5% of the capital is held directly, and information on social benefits and professional training provided to employees, and on corporate social responsibilities activities in relation to Company activities that bring about other social and environmental implications.

PART IV - STAKEHOLDERS

4.1. Keeping Stakeholders Informed

Open and honest communication channels have been established with Company employees and other stakeholders, with attention paid to ensure that all stakeholders are kept informed about issues that concern them. Effective and speedy indemnification is made available in the event of infringement of stakeholders' rights regulated by legislation and mutual contracts. In all the agreements made, the Company takes care to include information on possible cases of indemnification and takes into consideration any and all demands and feedbacks received from stakeholders. The Company has in place a "Compensation Policy" devised for its employees, which is posted on the Company website.

The rights of all stakeholders are protected within the frame of the Code of Ethics published by the Board of Directors. The sanctions applicable to Company employees with respect to adherence to Code of Ethics take place in internal guidelines. Company employees can convey any transaction that contradicts with the legislation and are ethically inappropriate to the Audit Unit. An Ethics Hotline was set up, which will be used for stakeholders to convey any transactions deemed to contradict with the laws or the Company's ethical values to the Committee for Audit made up of Independent Board Members. An e-mail account has been assigned for this line and e-mail address has been announced on the corporate website.

The Company takes care to always cooperate with partners that espouse its Code of Ethics. In the professional relationships with customers, honesty and fairness are observed, reliability of agreements is upheld, and commitments are fulfilled in a timely manner. The Company attaches importance to building relationships with suppliers upon long-lasting trust. Care is taken to maintain the confidentiality of information of a trade secret nature, which information is related to customers and suppliers.

Actions that will ensure customer satisfaction are taken in the marketing and sales of goods and services; customer requests concerning purchased goods and services are fulfilled as soon as possible and customers are informed about possible delays. Attention is paid to ensuring alignment with the existing quality standards of the goods and services. In real estate projects where the Company that acts as a real estate investment company gives a certain quality guarantee to customers, such undertakings are fulfilled.

4.2. Stakeholder Participation in Management

Keeping all lines of communication open and eliminating all possible encumbrances is a fundamental principle regarding participation of Company employees in management. There is no formal model established for direct participation of other stakeholders in management.

The Company maintains constant communication with employees, pays due regard to their needs, and creates various platforms and mechanisms by which employees can convey their opinions and comments.

Internal meetings are held, which are attended by Company employees when necessary, and they play a significant role in the decision-making process of senior management.

Expectations and demands from all stakeholders involved with the Company are addressed on the basis of Code of Ethics and resolved through mutual communication. Contractual and other demands, requests and problems of real and legal persons, which the Company is dealing with in relation to rental and sales agreements, are forwarded to the Company's relevant committees through the Corporate Communications, Sales, Leasing and Marketing Group, and solution-oriented suggestions are discussed and decided on by these committees.

4.3. Human Resources Policy

The main objective of the Company is to recruit the qualified human resource that will carry out Company activities in the most effective manner and to ensure employee motivation so as to maintain constant success; continuously improve financial rights and fringe benefits of employees; create a fair and professional working environment, and provide the necessary support to determine and fulfill the training needs of employees.

Corporate Governance Principles Compliance Report

Employees are informed about decisions and developments that concern them. There is not a trade union set up under the Company organization. On the other hand, while the Company supports the freedom of association and the effective recognition of the right to collective bargaining, the Company has not received any such request from the employees to date.

In line with the objectives and strategies specified in the Company's Human Resources Policy, the Company aims to create a shared corporate culture by recruiting the human resource that espouses the same values with the Company, and seeks to create competitive advantage by conducting the necessary training, development and cultivation activities.

Matters such as employment conditions, career path and advancement requirements, monetary arrangements and fringe benefits are clearly detailed in the Company's Human Resources Regulation for the information of employees. The Human Resources and Education Department carries out all decisions made in relation to the employees in accordance with the said regulation.

Employees' job descriptions were developed based on business analyses. Number of employees, on the other hand, was determined according to the units' workloads and on the basis of distribution of tasks in line with the demands of the Company's Groups. Employees are expected to embrace the performance-driven management concept and recognize that their individual involvement will contribute to customers and shareholders. Therefore, Company Performance Evaluation criteria and their printed results are shared with the employees. Employees who target to add value to their respective jobs are backed by the Human Resources and Education Department, and they gain access to self-development and manage their career objectives.

The personal honor of each employee and all of their legally recognized rights are protected within the framework of the Company's Code of Ethics. All necessary measures have been taken to ensure a safe and healthy work environment.

During the reporting period, the Human Resources and Education Department received no complaints on account of discrimination.

4.4. Code of Ethics and Social Responsibility

The Code of Ethics was devised by the Board of Directors in 2003 under the headings "Shareholders", "Operating Standards", "Employees" and "Customers-Suppliers-Shareholders", posted on the Company website and publicly disclosed. The Code of Ethics can be accessed on the Company website under the "Corporate Governance" heading in the "Investor Relations" section.

While headed towards generating high returns for its shareholders, which is a key objective, İş REIC also carries out various activities to contribute to the social life and the environment within the scope of its corporate social responsibility concept.

Along the line, the Company extends support to numerous artistic and sports events, in addition to the activities carried out in the sector. The activities carried out with a view to allowing the young generation gain experience in the sector and to socially equip them coincide with our corporate mission that puts human at its core.

İş REIC provides gratuitous support to projects in areas that it regards within the scope of its social responsibility such as education, health, culture, law, art, scientific research, environmental protection, and sport. Committed to consistently shaping its approaches, values, and policies within the framework of its corporate social responsibility, the Company will continue to engage in such activities and to provide them with support in the future as well.

No lawsuits were brought against the Company during the reporting period, which might affect the Company's financial status and operations.

Believing that sustainable growth in all areas is crucial, and with its mission of creating desirable spaces for contemporary people and cities, İş REIC continued to support the sector's development and social solidarity in 2016.

2016 marked the onset of a new initiative, which was introduced to reveal our commitment to finding solutions in view of social issues, needs and expectations as İş REIC. Under the initiative launched based on the core values and targets of the İş REIC brand along with the positive social influence sought to be created in the public, a process was planned whereby the corporate social responsibility strategy will be jointly determined with the Company employees. Advisory support was received from MarjinalSosyal, our communications agency, in line with our search for devising a real solution that would also serve as an example for the sector for a social issue or need aligned with the values embedded in our Company and brand, and related to our field of activity and our expertise. The voluntary team efforts initiated within this context continued throughout the year. The goal is to identify the priority fields, in which we will be working, and to devise and introduce the social projects we will be conducting in these areas at the end of this process.

In a bid to undertake a participative role in encouraging all segments of the society –male and female, young and old– to take part in sports, İş REIC continued to extend its long-going support to the Konak Municipality Youth and Sports Club Women's Football Team in 2016, which competes in the Turkish Football Federation's Women's Premier League and which qualified to take part in the Turkey Championship.

During the reporting period, the Company maintained its support to sectoral development by sponsoring the Turkish Real Estate Summit 15 organized by GYODER (the Association of Real Estate and Real Estate Investment Companies), the Shopping Mall Investments Conference organized by AYD (Council of Shopping Centers-Turkey), the conference titled "Under Construction" co-organized by YEM (The Building Information Center) and İstanbul Bilgi University, and the "Invest in Kartal, Invest in Future Summit" program organized by NTV.

In addition, İş REIC opens the doors of the shopping centers in its portfolio to associations and foundations working to benefit the public by offering them the opportunity to set up stands and carry out publicity activities free-of-charge. The Company extends all necessary cooperation in this area.

PART V - BOARD OF DIRECTORS

5.1. Structure and Formation of the Board of Directors

Members of the Board of Directors	
Levent Korba	Chairman, Non-Executive 24.03.2016-23.03.2017
M. Kemal Fettahoğlu	Vice Chairman, Non-Executive 24.03.2016-23.03.2017
Aysel Tacer	Board Member, Non-Executive 11.04.2016-23.03.2017
D. Sevdil Yıldırım	Board Member, Non-Executive, Independent 24.03.2016-23.03.2017
Haluk Büyükbaş	Board Member, Non-Executive, Independent 24.03.2016-23.03.2017
Nihat Uzunoğlu	Board Member, Non-Executive, Independent 24.03.2016-23.03.2017
Mete Uluyurt	Board Member, Non-Executive 24.03.2016-23.03.2017
Süleyman H. Özcan	Board Member, Non-Executive 24.03.2016-23.03.2017
Murat Doğan	Board Member, Non-Executive 24.03.2016-23.03.2017
Senior Management	
Turgay Tanes	CEO

The powers and authorities of the Members of the Board of Directors are set out in the Company's articles of association. The Company is managed and externally represented by the Board of Directors. The Board of Directors performs the duties assigned to it by the General Assembly in accordance with the Turkish Commercial Code, the Capital Market Law and other applicable legislation. The Board of Directors is composed of nine members, three of which are independent.

Corporate Governance Principles Compliance Report

Within the frame of Corporate Governance Principles, a Nominating Committee was not set up at the Company, and its functions are fulfilled by the Corporate Governance Committee. Along the line, the Corporate Governance Committee evaluated the candidacy of three individuals to serve as independent members on the Board of Directors during the reporting period. The Corporate Governance Committee prepared evaluation reports establishing whether the candidates possessed the criteria of independence on 17 March 2016, and submitted them to the Board of Directors on 18 March 2016. The Board of Directors finalized the list of nominees in the light of these evaluations and the finalized list of nominees was publicly disclosed.

During the reporting period, no events took place that compromised the independence of the Board Members. Declarations of interest by Board Members are on page 36-35.

Board of Directors members' engaging in the transactions stipulated under Articles 395 and 396 of the TCC is subject to the approval of the General Assembly and the Board members were authorized to engage in the transactions falling under the said articles at the General Assembly meeting convened on 24 March 2016. Nonetheless, although there are no set rules on Board Members' undertaking other duties outside the Company, if they take on an executive role or hold a seat on the board of directors on, or offers consultancy service to, another company, this must not cause a conflict of interest. Also, as a basic principle, Independent Board Members must act so as to maintain the independence criteria described in the Principles. In-group/non-group positions held by the Board of Directors members, their terms of office in the Company, and distribution of positions are presented in the members' resumés.

Although the Company has not yet determined a targeted ratio and timing in relation to the women members on the Board of Directors, and has not devised a policy to this end, our Company pays attention to make sure that individuals possessing the required competencies take place in the Company's execution and on the Board of Directors, without discriminating on the basis of sex. Within this context, the Company spends maximum effort for active participation of women on the Board of Directors. On the other hand, when electing the members of the Board of Directors, priority is given to designating nominees possessing the required qualifications and experience in areas associated with the Company's field of activity; hence establishment of a binding policy with respect to the number of women members is not preferable. However, evaluations are ongoing for determining a targeted ratio of women Board members. Currently, two women members serve on the Board of Directors. One of the women members has been holding a seat on the Board of Directors since 2012, while the other woman member assumed office upon her election at the 2015 General Assembly Meeting held in 2016.

Levent Korba - Chairman

Levent Korba received his degree in English language from Buca Faculty of Education at Dokuz Eylül University in 1984. He joined İşbank in 1986 as a Candidate Officer in İzmir Branch. He became an Assistant Section Head in Bornova Branch in 1990, and a Sub-Manager and then Assistant Manager in Karabağlar Branch in 1995 and 1998, respectively. He was brought to the position of Manager of the Samsun Branch in 2002, Çukurova Regional Manager in 2004 and the Head of Branch Network Development Division in 2007. Holding an in-group position in addition to his office as the Chairman of the Board at İş REIC, Mr. Korba serves as Deputy Chief Executive of İşbank since 13 April 2011.

M. Kemal Fettahoğlu - Vice Chairman

M. Kemal Fettahoğlu got his degree in economics from the Middle East Technical University in 1990 and joined İşbank the same year as an assistant specialist in the Strategic Planning Department. After pursuing graduate studies in finance in London in 1997-1998, he worked as the Finance Manager and Capital Markets and Asset Management Manager at Petrol Ofisi from 2000 through 2003. He also assumed the responsibility of unit manager of İşbank's Economic Research, Enterprise Architecture and Branch Network Development divisions. Holding an in-group position in addition to his office as the Vice Chairman of the Board at İş REIC, Mr. Fettahoğlu has been serving as the head of İşbank's Construction and Real Estate Management Division since October 2011. Having been a member of İş REIC's Board of Directors since 2012, Mr. Fettahoğlu also holds a seat on the Board of Directors of İş-Alınhas.

Aysel Tacer - Board Member

Aysel Tacer received her degree in business administration from Marmara University, Faculty of Economics and Administrative Sciences. She started her career at İşbank as an Officer at Taksim Branch in 1980. Ms. Tacer served as Assistant Section Head and Financial Analyst in the Credit Information and Financial Analysis Department from 1983 to 1989; became Assistant Credit Analyst in 1989 and Assistant Manager in 1993 at Şişli Branch. Between 1996 and 2011, she served as Manager of Akatlar, Çarşı-Bakırköy, Bakırköy, Güneşli and Güneşli Corporate Branches. Ms. Tacer was a member of the Board of Auditors at Tuba Sim İnş. Konsorsiyumu A.Ş. (1994-1996), a member of the Board of Auditors at İş Factoring Finansman Hizmetleri A.Ş. (1999-2001), and a member of the Board of Directors at Cami Madencilik A.Ş. (2001-2005), at Anadolu Anonim Türk Sigorta Şirketi (2005-2009) and at İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. (2009-2011). Ms. Aysel Tacer was elected to İşbank's Board of Directors on 31 March 2011 and on 28 March 2014. She has served as member of the Board of Directors until 21 March 2016, and functioned, in tandem, as a Member of Corporate Social Responsibility Committee and as Alternate Member of the Credit Committee. She retired from İşbank effective 30 June 2015. Ms. Tacer does not hold any in-group positions other than her seat as a Member on the Board of Directors of İş REIC.

D. Sevdil Yıldırım - Independent Board Member

D. Sevdil Yıldırım received her degree in business administration from the Middle East Technical University in 1988. She also has master's degrees in economics from the Middle East Technical University and in finance from the London Business School. She worked at Capital Markets Board of Turkey (CMB) in Research and Development, Auditing and Market Supervision departments in 1988-1999. In 1999, she joined Yapı Kredi Invest where she held the positions of Head of International Capital Markets Department and Assistant General Manager. Ms. Yıldırım worked at Turkish Yatırım and BGC Partners as an Assistant General Manager in 2006 and 2007, respectively. She joined Yıldız Holding A.Ş. in 2009 as Corporate Finance and Capital Markets Coordinator. At Yıldız Holding, Ms. Yıldırım was also involved in the establishment of Gözde Girişim Sermayesi Yatırım Ortaklığı A.Ş., where she served as an Assistant General Manager and also as the Investment Committee Member until February 2012. She held vice president positions for Gulf business councils at DEİK (Foreign Economic Relations Board) from 2002 to 2012. She serves as an independent board member at TAV Havalimanları Holding A.Ş., a non-group position, as a board member at KOTEDER, the Association of Listed Companies' Executives whose members include publicly held companies, again a non-group position, and as an independent board member at Denizli Cam San. A.Ş., an in-group position. Ms. Yıldırım has been holding a seat on the Board of Directors of İş REIC since 2012 and she is also the head of Corporate Governance Committee, as well as the member of the Committee for Audit.

Haluk Büyükbaş - Independent Board Member

Mr. Haluk Büyükbaş received his BSc and MSc in electrical engineering from the Middle East Technical University, Faculty of Engineering in 1980 and 1983, respectively. He started to work as an Engineer at the Research and Planning Department of the Turkish Electricity Administration, where he functioned as an Engineer, Chief Engineer, and Project Manager in the Transmission Lines and Substations Project Department between 1981 and 1989. Mr. Büyükbaş worked as Department Head at the T.R. Prime Ministry Housing Development Administration from 1989 to 1995, and served as Deputy General Manager of the General Directorate of Public Finance of the T.R. Prime Ministry Undersecretariat of Treasury between 1995-1997. Mr. Büyükbaş served as Vice President of the T.R. Prime Ministry Privatization Administration between 1997 and 2003, during which time he handled the privatizations of oil and energy companies. He worked as President's Advisor at the Privatization Administration from 2003 until 2005 when he retired from civil service. During his civil service, Mr. Büyükbaş also served as a member on the boards of directors and boards of auditors of various companies including TÜPRAŞ, PETKİM, ERDEMİR and ÇEAŞ. He became Secretary General of the Turkish Contractors Association (TCA) in 2005, a position he still holds. In connection with this post, he has been a Governor at the World Water Council based in Marseille since 2006. Mr. Büyükbaş does not hold an in-group position other than his seat as a Member of the Board of Directors at İş REIC.

Corporate Governance Principles Compliance Report

Nihat Uzunoğlu - Independent Board Member

Mr. Nihat Uzunoğlu received his degree in political sciences from Ankara University in 1981 and started to work as Junior Accountant at the Ministry of Finance the same year. He was appointed to the position of Accountant in 1984, ranking first in his term, and to the position of Chief Accountant in 1991. Mr. Uzunoğlu conducted studies and research on "Self-Regulation Organization in the British Tax System" for one year in the UK, between 1989-1990. On 13 March 1994, he was assigned as the first Director of the Foreign Trade Tax Administration that was just established, in which post he served for 3.5 years. He then served as the Assistant Head of Provincial Treasury of İstanbul from July 1997 to August 2004. Mr. Uzunoğlu was re-appointed to the Tax Inspectors Board as Chief Tax Inspector in August 2004, where he served in various functions including member of the Reading Commission and member of the Advisory Commission. Mr. Uzunoğlu served as the President of the Finance Tax Inspectors Association for four terms between 2005 and 2009, and retired from civil service in January 2014. He currently offers advisory in tax, insurance and other financial legislation at RSM TR Yeminli Mali Müşavirlik A.Ş. and also provides training activities on tax implementations at the "HUZ ACADEMY", which is a joint institution of the Tax Inspectors Association and Tax Inspectors Foundation. Mr. Uzunoğlu is the author of a two-volume book set titled Herkes İçin Katma Değer Vergisi Kanunu Yorum ve Açıklamaları (Value Added Tax Law Interpreted and Explained for the Layman) published by the Finance Tax Inspectors Association. He does not hold an in-group position other than his seat as a Member of the Board of Directors at İş REIC.

Mete Uluyurt - Board Member

Mete Uluyurt graduated from Tarsus American High School in 1989 and from the Department of Economics at Bilkent University in 1994. He started his career on the Board of Internal Auditors of İşbank in 1996. Mr. Uluyurt was appointed as an Assistant Manager to the Budget and Planning Department in 2004. Having pursued his master's studies in business administration at Boğaziçi University in 2005, he worked as Vice Chairman of the Board of Internal Auditors, as Unit Manager in Change Management Department, as Unit Manager in the Department of Strategy and Corporate Performance Management and as Manager of Balmumcu Branch. Holding an in-group position in addition to his seat on the Board of Directors at İş REIC, Mr. Uluyurt is currently working as Department Manager in the Department of Strategy and Corporate Performance Management of İşbank.

Süleyman H. Özcan - Board Member

Süleyman H. Özcan got his degree in economics at Boğaziçi University, and started his career as an assistant internal auditor on the Board of Internal Auditors of İşbank in 1993. He was appointed as Assistant Manager in Treasurers Department in 2001 and then as manager in the same department. He also worked as Unit Manager in Project and Change Management Department and Department of Strategy and Corporate Performance Management respectively and served in various positions at some İşbank subsidiary companies. Holding an in-group position in addition to his seat on the Board of Directors of İş REIC, he has been working as Department Manager in Investor Relations Department since 26 March 2009. He is also a Member of İşbank's Corporate Governance Committee. Mr. Özcan has been serving as a Member of the Board of Directors at İş REIC since 8 December 2014.

Murat Doğan - Board Member

Murat Doğan got his degree in industrial engineering from İstanbul Technical University in 2000, and joined İşbank as an assistant specialist in İşbank's Subsidiaries Division. He currently serves as Unit Manager for Real Estate Investments and Healthcare Companies in the division. Holding in-group positions in addition to his seat on the Board of Directors of İş REIC, Mr. Doğan is a Board member at Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A.Ş., İş Merkezleri Yönetim ve İşletim A.Ş., Erişim Müşteri Hizmetleri A.Ş., İş-Alınhas İnşaat Taahhüt ve Tic. A.Ş., and Camış Yatırım Holding A.Ş. Having served as a member of the Company's Committee for Audit from 2010 to 2012, Mr. Doğan has been holding a seat on İş REIC's Board of Directors since 8 December 2014. He is also a member of the Corporate Governance Committee and the Committee for Early Detection of Risk.

Turgay Tanes - CEO

Turgay Tanes graduated from the Department of Public Administration of the Faculty of Economics and Administrative Sciences at Gazi University in 1987. He started his career at İşbank as an assistant inspector on the Board of Inspectors in 1988. He became an assistant manager in the Subsidiaries Division in 1996 and worked as a group manager of Real Estate and Glass Sector Companies from 1999 to 2004 in the same division. Serving as the CEO of İş Real Estate Investment Company since 2004, Mr. Tanes also functions as the chairman of one of the subsidiaries of İşbank.

5.2. Operating Principles of the Board of Directors

Agendas of the Board meetings are prepared as recommended by the CEO and with the knowledge of the Chairman of the Board. The Board of Directors carries out its activities within the frame of its publicly disclosed operating principles, and meetings are called by the Chairman or Vice Chairman as and when deemed necessary for the Company's business affairs. Board Members also have the right to call for a meeting of the Board of Directors according to article 13 of the Company's articles of association.

A Board of Directors Secretariat has been set up at the Company. This unit is responsible for and actively involved in organizing Board meetings, preparing and recording reports, documentation, and Board decisions, coordinating communication among Board Members, and performing similar functions.

The Board of Directors convened ten times during the period and passed 80 resolutions. All Board Members attended all of the Board meetings. All decisions taken by the Board were passed unanimously. No dissenting opinions were expressed in any of the decisions taken during board meetings. Inasmuch as no votes were cast against any of the decisions that were taken, it was not necessary to make note of any opposition to them in meetings' minutes.

No Board Member enjoys any special voting rights and/or has the power to exercise a veto.

The insurance necessary to indemnify the losses that Members of the Board of Directors may cause to the Company by reason of their faults in the performance of their duties has been purchased by İşbank, the principal shareholder, so as to cover the Bank and its subsidiaries.

5.3. Number, Structures and Independence of the Committees Established Under the Board of Directors

As required both by the Capital Markets Board's Corporate Governance Principles and by the Company's Board of Directors Operating Principles, there are three committees within the Board: a Corporate Governance Committee, a Committee for Early Detection of Risk, and a Committee for Audit. These committees are headed by Independent Board Members. All of the members of the Committee for Audit are Independent Board Members as per the legal requirement. The heads and members of committees are presented below.

Corporate Governance Committee		
Head	Member	Member
D. Sevdil Yıldırım Independent Member (non-executive)	Murat Doğan (non-executive)	Ayşegül Şahin Kocameşe (executive)

Committee for Early Detection of Risk	
Head	Member
H. Haluk Büyükbaş Independent Member (non-executive)	Murat Doğan (non-executive)

Committee for Audit	
Head	Member
Nihat Uzunoğlu Independent Member (non-executive)	D. Sevdil Yıldırım Independent Member (non-executive)

All due consideration is given to the requirements of Corporate Governance Principles when selecting committee members. The Board of Directors consists of nine members, three of whom are independent. Owing to the number of committees set up under the Board of Directors and the qualifications of the members assigned to the committees, a Board Member may serve on more than one committee. There are no plans to make any changes to this practice.

Corporate Governance Principles Compliance Report

Under Article 5 of the Corporate Governance Communiqué, the Company was included in Group 2 Companies for 2016 in view of the assessment made by the CMB taking into consideration the market capitalizations of publicly-held companies depending on their systemic importance and the market prices of their stock in circulation. Within this context, the number of independent members on the Company's new Board of Directors is implemented as 1/3 of the full membership pursuant to Principle no. 4.3.4 of the Corporate Governance Principles. Made up of 9 members, the Board of Directors includes 3 independent members.

Operating principles have been defined and publicly disclosed for each committee. Committees perform their functions within the frame of those principles. During the reporting period and after the conduct of the Company's annual meeting, the duties and responsibilities of Board Members were assigned and elections to committee seats were held as required by CMB Corporate Governance Communiqué, which were then publicly announced.

Neither a Nominating Committee nor a Remuneration Committee has been set up. The functions of these committees are performed by the Corporate Governance Committee.

A Corporate Governance Committee has been set up in compliance with the Capital Markets Board's rules and regulations concerning corporate governance and it has been charged with fulfilling the duties and responsibilities incumbent upon it under Corporate Governance Principles. This Committee regularly reviews the Company's corporate governance practices and it strives to make improvements in them. During the reporting period, this Committee, along with the Investor Relations Department, was actively engaged in the review of the Company's corporate governance rating. At regular intervals, the Committee reviews the Company's investor relations activities and strategies, and ensures that the Board of Directors is kept informed about such issues on a regular basis. In addition to these functions, the Committee is also active in such areas as providing coordination among other committees and supporting their activities when necessary. It is a principle of the Corporate Governance Committee to meet before the meetings of the Board of Directors; however it may also convene more frequently as circumstances require. During the reporting period, the Committee held 11 meetings.

In line with the duties incumbent upon it as specified in its operating principles and in compliance with the principles of applicable capital market laws, regulations, and administrative provisions during the reporting period, the Committee for Audit actively works in such matters as publicly disclosing the Company's financial statements, having independent audits conducted, and ensuring that the Company's internal systems function effectively; all other aspects of the independent auditors' activities were also supervised. During the reporting period, the Committee held 5 meetings and submitted five written reports to the Board of Directors.

In accordance with the CMB's rules and regulations concerning corporate governance, the Committee for Early Detection of Risk has been set up to early detect the risks that may threaten the Company's existence, development and survival, to implement the necessary measures for identified risks and to manage the risks. It is also charged with conducting reviews of the risk management systems at least on an annual basis. Through the reports issued and activities carried out during the reporting period, the Committee played an active role in the identification and analysis of important risks inherent in the Company's operations, ensured that necessary information was provided to the Board of Directors with respect to monitoring the risk limits, and increased the efficiency of the Company's risk systems. During the reporting period, the Committee held 3 meetings.

5.4. Risk Management and Internal Control Mechanism

The Company's risk management activities are being carried out by the Risk Management Unit since 2005. This Unit reports to the Company's senior management in relation to the management of the risks inherent in the Company's operations within the frame of the Company's Risk Policy and other associated internal guidelines.

The Board of Directors and the Committee for Early Detection of Risk are kept informed about the Company's risk exposure by means of a comprehensive "Company Risk Report" that is prepared and submitted every three months. This report includes, among other things, information about the Company's business sector, key financial indicators, and the results of the unit's analysis and assessment of the risks that are inherent in the Company's activities. Detailed information is provided about business environment risk, a category of operational risk that the Company is particularly exposed to.

Furthermore, within the scope of the duties and responsibilities charged to the Committee for Early Detection of Risk and the Board of Directors under article 378 of the Turkish Commercial Code no. 6102, a "Committee for Early Detection of Risk Report" is prepared on a bimonthly basis and submitted to the Board of Directors for its information.

The “Company Risk Catalogue” that covers all of the risks inherent in the Company’s activities is updated as dictated by changing market and business conditions, new types of risks are defined, potential risks are identified, and risk mitigation measures are proposed. These efforts are intended to enable senior management to take whatever measures are needed to ensure that the Company’s risks are effectively managed.

Within the scope of portfolio management activities, the Company invests both in money and capital market instruments. At the end of the reporting period, the investments in the real estate sector made up 97% of the total portfolio investments. Primary risks inherent in these investments include business environment risk, credit risk and liquidity risk. These risks include external factors such as changes in the regulatory framework and practices with a potential impact upon the Company’s activities and the supply/demand situation in the sector. The Company adopts the necessary measures, makes use of the control systems and monitors the effectiveness of these systems, in order to minimize the risks that might arise from the business environment.

Credit risk is an expression of the risk of loss that may be suffered by the Company on account of the inability or failure of a counterparty to a transaction involving the Company to fulfill the contractual requirements and/or to timely satisfy its contractual obligations, in part or in whole. The Company complies with internal guidelines in order to minimize its potential credit risk exposure in relation to transactions to which the Company is a party.

Liquidity risk is defined as the possibility of the loss the Company may suffer on account of imbalances in its cash flow, resulting in unavailability of cash holdings or cash inflow sufficient in volume and quality to fully and timely fulfill its cash disbursement obligations. The Company invests in cash resources, which are not allocated to its projects, in money and capital market instruments in a manner to ensure full and timely fulfillment of its cash disbursement obligations, and keeps a close eye to ensure that the amounts and maturities are compatible. The Company’s short and long-term financing needs are determined by way of regularly prepared cash projections, while the relationship between the Company’s revenues and investment costs is closely watched both in terms of maturity and of the type and amount of foreign currency. The Company’s cash status and financing strategies are shaped accordingly. The Company’s liquidity is regularly analyzed and monitored using the methods and limits set by the management, and the results are reported to the senior management.

As of 31 December 2016, money and capital market investments made up only a 3% share of the overall investment portfolio. These investments are exposed to an inherent market risk, which is regularly analyzed and monitored using the methods and principles set by the management, and the results are reported to the senior management.

The internal control system is set up to review, control, monitor and assess the Company’s activities, along with the fitness, adequacy and effectiveness of these controls in relation to these activities. The results are reported to relevant units. The Company’s internal control activities are carried out by the Audit Group, and the internal control system has adopted a risk-focused approach to control. The controls developed to minimize and eliminate the risks inherent in the Company’s operations and the adequacy of these controls make up the basis of the internal control activity.

Committees set up under the Board of Directors work actively and fulfill their duties and responsibilities set out in Corporate Governance Principles. Through its reports and activities during the reporting period, the Committee for Early Detection of Risk played an active role in the identification and analysis of important risks inherent in the Company’s operations, ensured that necessary information was provided to the Board of Directors for monitoring risk limits, and increased the efficiency of the Company’s risk systems. The Committee for Audit, on the other hand, reviewed the operation of the Company’s internal systems, contributed to the betterment of processes that presented room for improvement, and effectively carried out audit activities. The Board of Directors regularly oversees the efficiency of the Company’s internal systems and prepares an assessment report on the operation and efficiency of internal systems during the year.

Corporate Governance Principles Compliance Report

5.5. Strategic Goals of the Company

Diversifying its portfolio by investing in projects in the real estate sector such as offices, retail sector and residences, the Company adopts the strategy of generating maximum benefit for its shareholders by increasing its ongoing revenues and profitability. Accordingly, the Company aims to capture the ideal balance between real estate investments that will generate regular income and those on which development profit will be derived in parallel with the conjuncture.

In line with this aim, mixed-use project concept that covers both residential and commercial units in the projects that are being developed is given emphasis, thereby rendering the benefit derived on rental activities continuous, while also intending to generate high returns and profitability on the sales.

Within the frame of the fundamental strategies described above, the top priority of İş REIC in 2017 is to bring all of its ongoing investments to completion within the projected timelines, to attain projected profitability, to capture the targeted lease and sales figures, to sustain high cash dividend distribution, and to carry on with project developments that will result in optimum use and benefits on properties included in its portfolio.

Besides all these activities, the Company closely monitors investment opportunities relating to projects and real estate properties that will secure the Company's organic and revenue growth, and assesses them in line with its investment strategy.

When planning for 2017 and following years, risks that may stem from the business environment are also taken into consideration, a close eye is kept on exchange rate risk in investment and funding decisions, and the lowest risk / maximum benefit/cost trade-off is observed.

The Board of Directors regularly monitors the actualizations within the frame of strategic goals, revises the targets as and when called for by new circumstances, and shapes investment and financing decisions accordingly.

5.6. Financial Rights

Pursuant to Corporate Governance Principles, the remuneration principles for the Board Members and executives with administrative responsibility are put into writing and presented for the information of shareholders at the General Assembly. The Company's Remuneration Policy is available on the Company's website, under "Policies" under the heading "Corporate Governance" in "Investor Relations" section.

The remunerations of the Members of the Board of Directors are proposed by the Corporate Governance Committee, and determined by the General Assembly. The benefits provided to the Board of Directors and senior management are publicly disclosed via the Financial Reports disclosed quarterly and also in the Annual Report. In order to act in parallel to the relevant established practice in our country, our Company does not disclose the benefits provided to the Board of Directors and senior management on the basis of individuals. Currently, there are no plans to make any changes in this practice.

Besides the remuneration decided by the General Assembly, the Board Members were not granted rights that would give them financial benefits such as attendance fee, bonus or premium. Stock options or a payment plan based on the Company's performance are not used for the remuneration of Independent Board Members. The financial rights provided to Board of Directors members amounted to TL 771 thousand gross in the reporting period.

The financial benefits provided to the senior management cover salaries and bonuses. The financial rights provided to the senior management (CEO and Heads of Groups) last year amounted to TL 4,390 thousand gross.

During the reporting period, the Company engaged in no transactions such as lending, granting loans, extending credit through a third person under the name personal loan or providing guarantees, etc. involving Board Members or senior managers.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Financial Statements as of and for the Year Ended 31 December 2016 with Independent Auditors' Report Thereon

(Convenience Translation of Financial Statements and Related Disclosures and Footnotes Originally Issued in Turkish)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Independent Auditors' Report



**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.**
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To the Board of Directors of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi,

Report on Financial Statements

We have audited the accompanying statement of financial position of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") as of 31 December 2016 and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

The Company Management's Responsibility for the Financial Statements

The Company management is responsible for the preparation and fair presentation of these financial statements in accordance with the Turkish Accounting Standards and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards on auditing issued by the Capital Markets Board of Turkey ("CMB") and Standards on Auditing which is components of the Turkish Auditing Standards published by the Public Oversight Accounting and Auditing Standards Authority ("POA"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of "material misstatement" of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained during our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi as of 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with Turkish Accounting Standards.

Report on Other Legal and Regulatory Requirements

- 1) Pursuant to the fourth paragraph of Article 398 of the Turkish Commercial Code ("TCC") no. 6102; Auditors' Report on System and Committee of Early Identification of Risks is presented to the Board of Directors of the Company on 27 January 2017.
- 2) Pursuant to the fourth paragraph 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 2016 are not in compliance with the TCC and provisions of the Company's articles of association in relation to financial reporting.
- 3) Pursuant to the fourth paragraph of Article 402 of the TCC; the Board of Directors provided us the necessary explanations and requested documents in connection with the audit.

Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.
A member of KPMG International Cooperative

Erdal Tıkmak, SMMM
Partner

27 January 2017
İstanbul, Turkey

Additional paragraph for convenience translation to English:

As explained in Note 2.1, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Turkey.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Contents

	Page
Statement of financial position (Balance sheet)	122-123
Statement of profit or loss	124
Statement of other comprehensive income	125
Statement of changes in equity	126
Statement of cash flows	128
Notes to the financial statements	129-187
Note 1. Organization and operations of the Company	129
Note 2. Basis of presentation of financial statements	130
Note 3. Equity accounted investees	143
Note 4. Operating segments	144
Note 5. Cash and cash equivalents	148
Note 6. Financial investments/Derivatives	149
Note 7. Loans and borrowings	150
Note 8. Trade receivables and payables	152
Note 9. Other receivables and payables	153
Note 10. Investment property	153
Note 11. Inventories	157
Note 12. Tangible assets	158
Note 13. Intangible assets	159
Note 14. Provisions, contingent assets and liabilities	160
Note 15. Provision for employee benefits	161
Note 16. Prepaid expenses, other assets, deferred revenue and other liabilities	162
Note 17. Shareholders' equity	164
Note 18. Revenue and cost of revenue	166
Note 19. Marketing, sales and distribution expenses/Administrative expenses	167
Note 20. Expenses by nature	167
Note 21. Other operating income/expense	168
Note 22. Finance income/expense	168
Note 23. Earnings per share	169
Note 24. Related party disclosures	169
Note 25. Nature and level of risks arising from financial instruments	175
Note 26. Fair value of financial instruments	184
Note 27. Events after the reporting period	186
Note 28. Other Issues Affecting the Financial Statements Significantly or Disclosed in Explanations As to the Financial Statements Open, Interpretable and Understandable	186
Additional Note: Control of compliance with restrictions on the investment portfolio	187

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Financial Position (Balance Sheet) As of 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
	<i>Notes</i>	31 December 2016	31 December 2015
ASSETS			
Current assets		322.950.245	459.875.342
Cash and cash equivalents	5	127.262.064	123.908.125
Trade receivables	8	28.770.301	21.820.775
<i>Trade receivables from related parties</i>	24	322.311	839.105
<i>Other trade receivables</i>		28.447.990	20.981.670
Other receivables	9	1.211.817	3.814.131
<i>Other receivables from non-related parties</i>	9	1.211.817	3.814.131
Inventories	11	91.612.134	174.215.106
Prepaid expenses	16	74.067.158	43.565.100
<i>Prepaid expenses to related parties</i>	24	2.716.668	2.726.125
<i>Prepaid expenses to non-related parties</i>		71.350.490	40.838.975
Other current assets	16	26.205	92.537.294
Derivatives	6	566	14.811
Non-current assets		4.564.069.949	3.665.325.237
Equity accounted investees	3	1.563.593	1.599.475
Inventories	11	715.506.230	344.641.480
Investment properties	10	3.714.668.994	3.291.628.689
Tangible assets	12	28.559.331	27.036.974
Intangible assets	13	473.250	418.619
Other tangible assets	16	103.298.551	--
TOTAL ASSETS		4.887.020.194	4.125.200.579

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Financial Position (Balance Sheet) As of 31 December 2016

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

		<i>Audited</i>	<i>Audited</i>
		31 December 2016	31 December 2015
LIABILITIES			
Short-term liabilities		188.453.135	556.007.399
Current portion of long term borrowings	7	121.419.856	313.511.518
<i>Loans and borrowings from related parties</i>	24	103.666.106	107.653.358
<i>Other loans and borrowings</i>		17.753.750	205.858.160
Current portion of long term financial leases	7	10.915.156	11.360.254
<i>Financial leasing from related parties</i>	24	10.915.156	11.360.254
Trade payables	8	34.198.753	60.226.775
<i>Trade payables to related parties</i>	24	5.270.465	2.696.047
<i>Other trade payables</i>	8	28.928.288	57.530.728
<i>Other payables</i>	9	622.898	1.472.069
Deferred income	16	6.198.445	160.060.245
<i>Deferred income to related parties</i>	24	660.831	662.670
<i>Other deferred income</i>		5.537.614	159.397.575
Short-term provisions		12.576.072	286.630
<i>Provision for employee benefits</i>	15	251.586	232.898
<i>Other short-term provisions</i>	14	12.324.486	53.732
Other short-term liabilities	16	2.521.955	9.089.908
Long-term liabilities		1.537.221.403	778.558.329
Loans and borrowings	7	921.629.250	375.591.597
<i>Loans and borrowings from related parties</i>	24	513.874.749	375.591.597
<i>Other loans and borrowings</i>		407.754.501	--
Long term financial leases	7	696.326	10.126.764
<i>Financial leasing from related parties</i>	24	696.326	10.126.764
Other payables	9	35.990.000	35.990.000
Deferred revenue	16	577.681.090	355.876.841
Long term provisions	15	1.224.737	973.127
<i>Provision for employee benefits</i>	15	1.224.737	973.127
EQUITY		3.161.345.656	2.790.634.851
Share capital	17	850.000.000	746.000.000
Inflation restatement difference on share capital		240.146.090	240.146.090
Share premium		423.981	423.981
Other comprehensive income that will never be reclassified to profit or loss		24.361.973	21.942.570
<i>Revaluation and classification of gains/losses</i>		24.226.634	21.731.787
<i>Other earnings/losses</i>		135.339	210.783
Legal reserves	17	36.305.282	28.240.772
Prior years' profits	17	1.589.596.928	1.197.948.571
Net profit for the period		420.511.402	555.932.867
TOTAL EQUITY AND LIABILITIES		4.887.020.194	4.125.200.579

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Profit or Loss For the Year Ended 31 December 2016

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

		<i>Audited</i> 1 January- 31 December 2016	<i>Audited</i> 1 January- 31 December 2015
Revenue	18	404.532.858	222.012.099
Cost of revenue (-)	18	(209.728.793)	(62.091.478)
Gross profit		194.804.065	159.920.621
General administrative expense (-)	19	(18.413.298)	(15.195.134)
Marketing expenses (-)	19	(18.705.521)	(21.301.752)
Other operating income	21	376.924.081	485.996.801
Other operating expense (-)	21	(40.151.880)	(17.210.075)
Operating profit		494.457.447	592.210.461
Share of profit of equity-accounted investees	3	674.188	(7.839)
Operating Profit Before Finance Expense		495.131.635	592.202.622
Financial income	22	--	3.489.650
Financial expenses (-)	22	(74.620.233)	(39.759.405)
Operating Profit before Tax From Continuing Operations		420.511.402	555.932.867
Tax Expense From Continuing Operations		--	--
- Corporate tax charge		--	--
- Deferred tax benefit		--	--
Net profit for the period		420.511.402	555.932.867
Earnings per share	23	0,0049	0,0065

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Other Comprehensive Income For the Year Ended 31 December 2016

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

	<i>Audited</i>	<i>Audited</i>
	1 January- 31 December 2016	1 January- 31 December 2015
Net profit for the period	420.511.402	555.932.867
Other comprehensive income		
Other comprehensive income that will never be reclassified to profit or loss	2.419.403	21.763.320
Net change in revaluation of tangible assets	2.494.847	21.731.787
Re-measurements of defined benefit plans	(75.444)	31.533
Other comprehensive income	2.419.403	21.763.320
TOTAL COMPREHENSIVE INCOME	422.930.805	577.696.187

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Changes in Equity For the Year Ended 31 December 2016

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

	Notes	Share capital	Inflation restatement difference on share capital	Share premium
Balances at 1 January 2015		680.400.000	240.146.090	423.981
Transfers		--	--	--
Total comprehensive income		--	--	--
Capital Increase (from internal sources)		65.600.000	--	--
Dividends		--	--	--
		--	--	--
Balances at 31 December 2015	17	746.000.000	240.146.090	423.981
Balances at 1 January 2016		746.000.000	240.146.090	423.981
Transfers		--	--	--
Total comprehensive income		--	--	--
Capital Increase (from internal sources)		104.000.000	--	--
Dividends		--	--	--
		--	--	--
Balances at 31 December 2016	17	850.000.000	240.146.090	423.981

Other comprehensive income that will never be reclassified to profit or loss					
Net change in remeasurements of defined benefit liability	Net change in revaluation of tangible assets	Legal reserves	Prior years' profits	Net profit for the period	Total
179.250	--	24.677.855	986.306.395	328.433.093	2.260.566.664
--	--	3.562.917	324.870.176	(328.433.093)	--
31.533	21.731.787	--	--	555.932.867	577.696.187
--	--	--	(65.600.000)	--	--
--	--	--	(47.628.000)	--	(47.628.000)
--	--	--	--	--	--
210.783	21.731.787	28.240.772	1.197.948.571	555.932.867	2.790.634.851
210.783	21.731.787	28.240.772	1.197.948.571	555.932.867	2.790.634.851
--	--	8.064.510	547.868.357	(555.932.867)	--
(75.444)	2.494.847	--	--	420.511.402	422.930.805
--	--	--	(104.000.000)	--	--
--	--	--	(52.220.000)	--	(52.220.000)
--	--	--	--	--	--
135.339	24.226.634	36.305.282	1.589.596.928	420.511.402	3.161.345.656

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Statement of Cash Flows For the Year Ended 31 December 2016

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

		Audited 1 January- 31 December 2016	Audited 1 January- 31 December 2015
A. Cash flows from operating activities			
Net profit for the period		420.511.402	555.932.867
Profit adjustments for:			
Adjustments to depreciation and amortization	12,13	1.431.138	706.098
Adjustments to impairment or cancellation		(560.761)	(35.290)
Adjustments to impairment of receivables	8	(560.761)	(35.290)
Adjustments for provisions		194.854	196.845
Adjustments to provision for employee severance indemnity	15	194.854	196.845
Adjustments to provision for loss or gain in fair value		(337.790.763)	(463.748.644)
Change in fair value of investment properties	10	(335.295.916)	(442.016.857)
Other adjustments to provision for loss or gain on fair value	12	(2.494.847)	(21.731.787)
Adjustments for retained earnings of investments valued by equity method	3	(674.188)	7.839
Adjustments for loss or gain on sales of fixed assets		1.995.218	(35.961.319)
Adjustments for loss or gain on sales of investment property	18	1.995.218	(35.961.319)
Gain/(losses) on derivatives	22	14.245	(2.989.650)
Adjustments to interest income and expense		21.798.413	(3.141.832)
Interest income	18	(8.460.750)	(4.861.456)
Interest expense	22	30.259.163	1.719.624
Operating profit from before the changes in working capital		106.919.558	50.966.914
Changes in working capital			
Changes in trade receivables		(6.388.765)	25.231.737
Changes in other receivables		2.602.314	(3.808.940)
Changes in prepaid expenses		(30.502.058)	8.777.276
Changes in other current assets		(10.787.462)	(76.351.623)
Changes in inventories		(288.261.778)	(161.853.047)
Changes in trade payables and other payables		(26.877.193)	55.836.450
Changes in deferred revenue		67.942.449	390.102.759
Changes in other short term liabilities		5.973.099	7.021.741
		(179.379.836)	295.923.267
Cash generated from operating activities		7.966.713	4.861.456
Net cash provided by/(used in) operating activities		(171.413.123)	300.784.723
B. Cash Flows From Investing Activities			
Proceeds from financial assets		--	15.126.664
Purchases of tangible assets and intangible assets	12,13	(543.567)	(764.743)
Purchases of investment property	10	(133.839.389)	(661.476.804)
Proceeds from sale of investment property		43.004.782	82.572.154
Dividends received	22	--	500.000
Equity accounted investees		35.882	--
Net cash used in investing activities		(91.342.292)	(564.042.729)
C. Cash Flows From Financing Activities			
Dividends paid	17	(52.220.000)	(47.628.000)
Borrowings received		600.000.000	371.070.000
Borrowings paid		(250.356.960)	(138.006.752)
Interest paid		(30.259.163)	(1.719.624)
Net cash provided by financing activities		267.163.877	183.715.624
Increase/(decrease) in cash and cash equivalents before effect of changes in foreign currency rates		4.408.462	(79.542.382)
Effect of changes in foreign currency rates over cash and cash equivalents		(274.823)	196.227
Net increase/(decrease) in cash and cash equivalents		4.133.639	(79.346.155)
Cash and cash equivalents at the beginning of the period		122.634.388	201.980.543
Cash and cash equivalents at the end of the period	5	126.768.027	122.634.388

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

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

1. Organization and operations of the Company

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi ("the Company") was established on 6 August 1999 by İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi taking over all assets and liabilities of İş Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi and Merkez Gayrimenkul Yatırım ve Proje Değerlendirme Anonim Şirketi, both of which operated separately and were established in 1998. The Company is a subsidiary of Türkiye İş Bankası Anonim Şirketi ("İş Bankası"). The Company's registered address is at İş Kuleleri Kule 2 Kat 10, 11 Levent İstanbul/Turkey.

The main objective and operations of the Company are to engage in activities regulated by the Capital Markets Board of Turkey ("CMB") related with the Real Estate Investment Corporations such as; properties, property oriented capital market instruments, real estate projects and investing in capital market instruments. Compliance to the CMB's regulations and related legislation are taken as a basis for the Company's operations, portfolio investment policies and management limitations.

The Company's shares have been traded on the Borsa İstanbul Anonim Şirketi (the former legal title "İstanbul Stock Exchange" ("BİST")) since 1999.

The Company has 80 employees as of 31 December 2016 (31 December 2015: 76).

Kanyon Yönetim İşletim ve Pazarlama Limited Şirketi ("Kanyon") was established on 6 October 2004 by both 50% equal participations of the Company and Eczacıbaşı Holding Anonim Şirketi ("Eczacıbaşı Holding"). The main objective and operations of the jointly controlled entity are the management of the residences, offices and shops; providing cleaning, maintenance, security, basic environmental set up and similar activities as well as acting as an agent in the introduction and marketing of the projects of the complexes, including property letting and sale. However, Kanyon is converted to Joint Stock Company status as at 5 June 2015.

2. Basis of presentation of financial statements

2.1 Basis of presentation

Statement of compliance

The accompanying financial statements and explanatory notes have been prepared in accordance with Turkish Accounting Standards ("TAS") promulgated by the Public Oversight Accounting and Auditing Standards Authority ("POA") as set out in the communiqué numbered II-14.1 "Communiqué on the Principles of Financial Reporting In Capital Markets" ("the Communiqué") of the Capital Markets Board of Turkey ("CMB"), which is published on 13 June 2013 at the Official Gazette numbered 28676. TAS include Turkish Accounting Standards, Turkish Financial Reporting Standards and related appendices and interpretations.

The financial statements as at 31 December 2016 have been approved for issue by the Board of Directors on 27 January 2017. The General Assembly and the legal authorities have the authority to amend the statutory financial statements and these financial statements.

Additional paragraph for convenience translation into English

The differences between accounting principles, as described in the preceding paragraphs, and the accounting principles generally accepted in countries, in which the accompanying financial statements are to be distributed may have significant influence on the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position and results of operations in accordance with the accounting principles generally accepted in such countries.

Preparation of financial statements

The accompanying financial statements have been prepared in accordance with the "Announcement on Financial Statements and Disclosure Formats" of CMB dated 7 June 2013. Additionally the accompanying financial statements have been presented in accordance with the TAS taxonomy of POA dated 2 June 2016 numbered 30.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2. Basis of presentation of financial statements

2.1 Basis of presentation

Functional and presentation currency

The financial position and the results of the Company's operations have been expressed in Turkish Lira ("TL") which is the functional currency of the Company and which is the presentation currency of the financial statements.

Basis of measurement

The financial statements are prepared on a historical cost basis except for the financial assets measured at fair value.

Preparation of financial statements in Hyperinflationary Periods

The CMB, with its resolution dated 17 March 2005, declared that companies operating in Turkey which prepare their financial statements in accordance with the CMB Financial Reporting Standards (including those adopted IAS/IFRS), would not be subject to the application of inflation accounting effective from 1 January 2005. Accordingly, IAS 29 "Financial Reporting in Hyperinflationary Economies" was not applied since 1 January 2005.

Financial statements of the jointly controlled entities are prepared in line with the financial statements of the Company in the same accounting period using uniform accounting policies.

Interest in Joint Arrangements

Jointly controlled entities are those entities over whose activities one or more entities has joint control, established by contractual agreement and requiring unanimous consent for economic benefits.

Jointly controlled entity which is constituted as Kanyon is accounted for using the equity method in the accompanying financial statements. Under the equity method, investments in the jointly controlled entities are carried in the statement of financial position at cost plus post acquisition changes in the Company's share of net assets of the jointly controlled entity and the comprehensive income reflects the share of the results of operations of the jointly controlled entities. Where there has been a change recognised directly in the equity of the jointly controlled entities, the Company recognises its share of any changes and discloses this based on IAS 28 "Investment in Associate and Joint Ventures", when applicable, in the statement of changes in equity.

The financial statements of jointly controlled entity was prepared by using same accounting policies and periods to confirm with the Company's financial statements.

Foreign currency transactions

Transactions in foreign currencies are translated to TL at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to TL at the exchange rate at that date. Foreign currency differences arising on retranslation and gains and losses from foreign currency transactions are recognized in profit or loss.

2.2 Changes in accounting policy

The changes in estimates of accounting are about only one period, when the change is made, are about future, prospectively applied by including future periods. There is no change in accounting estimates in the current period. Determined significant accounting estimates errors are applied retrospectively and restated prior financial statements. There is no significant accounting error that was discovered in the current period.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2.3 Standards and interpretations those are not yet effective as of 31 December 2016

2.3.1 Standards and interpretations that are effective in 2016

The Group has applied all of the mandatory standards, amendments and interpretations related to TAS and TFRS.

2.3.2 Standards and interpretations that are not yet effective as of 31 December 2016

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Company will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

TFRS 9 - Financial Instruments – Classification and measurement

As amended in December 2012, the new standard is effective for annual periods beginning on or after 1 January 2018. Phase 1 of this new TFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities. The amendments made to TFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Company is in the process of assessing the impact of the standard on the financial position or performance of the Company.

TFRS 15 Revenue from Contracts with customers

The standard replaces existing TFRS and introduces a new control-based revenue recognition model for contracts with customers. In the new standard, total consideration measured will be the amount to which the Company expects to be entitled, rather than fair value and new guidance have been introduced on separating goods and services in a contract and recognizing revenue over time. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under TFRS. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

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

The following standards, interpretations and amendments to existing International Financial Reporting Standards ("IFRS") standards are issued by the IASB but not yet effective up to the date of issuance of the financial statements. However, these standards, interpretations and amendments to existing IFRS standards are not yet adapted/issued to TFRS by the POA, thus they do not constitute part of TFRS. Such standards, interpretations and amendments that are issued by the IASB but not yet issued by the POA are referred to as IFRS or IAS. The Company will make the necessary changes to its financial statements after the new standards and interpretations are issued and become effective under TFRS.

IFRS 9 Financial Instruments – Hedge Accounting and Amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging transactions. Further, the new standard removes the 1 January 2015 effective date of IFRS 9. The new version of IFRS 9 issued after IFRS 9 (2013) introduces the mandatory effective date of 1 January 2018 for IFRS 9, with early adoption permitted. The Company is in the process of assessing the impact of the standard on financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

IFRS 16 Leases

On 13 January 2016, IASB published the new leasing standard which will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC 15 Operating Leases – Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease and consequently change IAS 40 Investment Properties. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted provided that an entity also adopts IFRS 15-Revenue from Contracts with Customers. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Amendments to IAS 7 Statement of Cash Flows – Disclosure Initiative

The amendments clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Amendments to IAS 12 Income Taxes– Recognition of Deferred Tax Assets for Unrealized Losses

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments are effective for annual periods beginning on or after 1 January 2017. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

IFRS 2 Share-Based Payment has been amended by IASB to improving consistency and resolve some long-standing ambiguities in share-based payment accounting. The amendments cover three accounting areas: i) measurement of cash-settled share-based payments, ii) classification of share-based payments settled net of tax withholdings; and iii) accounting for modification of a share-based payment from cash-settled to equity-settled. Also, same approach has been adopted for the measurement of cash-settled share-based payments as equity-settled share-based payments. If certain conditions are met, share-based payments settled net of tax withholdings are accounted for as equity-settled share-based payments. The amendments are effective for periods beginning on or after 1 January 2018, with earlier application permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

IAS 40 – Transfers of Investment Property

Amendments to IAS 40 - Transfers of Investment Property issued by IASB have been made to clarify uncertainty about that provide evidence of transfer of/from investment property to other asset groups. A change in management's intentions for the use of property does not provide evidence of a change in intended use. Therefore, when an entity decides to dispose of an investment property without development, it continues to treat the property as an investment property until it is derecognized (eliminated from the statement of financial position) and does not reclassify it as inventory. Similarly, if an entity begins to redevelop an existing investment property for continued future use as investment property, the property remains an investment property and is not reclassified as owner-occupied property during the redevelopment. The amendment is effective for annual reporting periods beginning on or after 1 January 2018 with earlier application is permitted. The Company is in the process of assessing the impact of the amendment on financial position or performance of the Company.

Improvements to IFRSs

The IASB issued Annual Improvements to IFRSs - 2014-2016 Cycle. The amendments are effective as of 1 January 2018. Earlier application is permitted. The Company does not expect that these amendments will have significant impact on the financial position or performance of the Company.

Annual Improvements to IFRSs 2014-2016 Cycle

IFRS 1 "First Time Adoption of International Financial Reporting Standards"

IFRS 1 is amended to clarify that the deletion of short-term exemptions for first-time adopters related to disclosures for financial instruments, employee benefits and consolidated financial statements.

IFRS 12 "Disclosure of Interests in Other Entities"

The amendments clarify that the entity is not required to disclose summarized financial information for that subsidiary, joint venture or associate under the requirements of IFRS 12, when an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) is classified (or included in a disposal group that is classified) as held for sale in accordance with IFRS 5.

IAS 28 "Investments in Associates and Joint Ventures"

The amendment enable when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2.4 Summary of significant accounting policies

Significant accounting policies applied for the preparation of the accompanying financial statements are as follows:

2.4.1 Accounting of income and expense

Revenue

Revenue include rent income, revenue from sale of investment properties and income from expenses made for investment properties invoiced to tenants, interests received from banks, income from capital market instruments.

Rent income from investment properties under operating leases

Rent income generated during the period from investment properties is recognized on an accrual basis. Revenue can only be realized if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Company is probable. Revenue is recognized as the fair value of the consideration amount received or receivable.

Income from expenses made for investment properties invoiced to tenants is recognized in the period when the service is provided by the Company.

Revenue from sale of investment property

Revenue is recognized when the significant risks and rewards of ownership of the investment property are transferred to the buyer and the amount is reliably measured. Revenue is recognized when and only when the Company transfers the significant risks and rewards of ownership of the goods to the buyer, retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue and cost of sales are recognized once the sales contracts of the projects are in line with the above stated criteria.

Interest income and expense

Interest income is recognized through profit or loss on accrual basis by using the effective interest method.

If borrowing costs are totally related with an investment property in progress, these borrowing costs are included in the cost of mentioned investment property. Other borrowing costs are recognized through profit or loss by using the effective interest rate.

Other income and expense

Other income and expense are recognized through profit or loss on accrual basis.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2.4.2 Investment property

The investment properties that the Company owns are measured by fair value in accordance with TMS 40 "Investment Property".

Terrains and buildings which hired to use for production of goods and services or administrative use or to be sold or rented in the ordinary course of business or in the purpose of appreciation, or for both are classified as investment properties and are evaluated by fair value measurement. Profit or loss that inflicting by a change in the fair value of an investment property, is included to the comprehensive income statement in its consisting time. (Note 21)

Investment properties are registered as asset if and only the economic benefits in the future are likely to enter the firm and the cost of investment properties are dependably measurable.

Management considers level of completion of construction, comparability of constructional project in market, identifiability of cash flows credibly which are following completion of construction, risks of real estate property, backgrounds and reconstruction permits of other construction which has same qualifications for faithfully evaluation of fair value of real estate properties which are under construction.

2.4.3 Tangible assets

As of 31 December 2004 the Company were reflecting tangible assets purchased before January 1 2005 on cost restated for the effects of inflation. In the following period were reflecting purchase cost, after allocating accumulated depreciation and permanent impairment provisions to the financial statements. Due to the changes in accounting policies since the third quarter of the current year valuation of Real estate in use recorded under tangible fixed assets within the "TAS 16- Tangible Assets" was amended from cost model to the revaluation model. The impact of the amended to the revaluation model has been reflected under equity as TL 24.226.634.

Cost of a tangible asset represents all cash outflows directly attributable to purchase of an asset and includes capitalized borrowing costs if any.

If the components of a tangible asset have different useful lives, these components (essential parts) must be recognized separately.

Gains and losses of sale of a tangible asset is determined by offsetting the carrying value with recovered amount and recognized through profit or loss in the other operating income/loss account.

Depreciation

Tangible assets are depreciated principally on a straight-line basis considering estimated useful lives, acquisition and assembly dates. Estimated useful lives are summarized below:

Buildings	50 years
Machinery and equipment	4-5 years
Vehicles	4-5 years
Furniture and fixtures	3-5 years

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Subsequent costs

Expenditures incurred to replace a component of tangible assets that is accounted for separately, including major inspection and overhaul costs, are capitalized. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

2.4.4 Intangible assets

Intangible assets acquired before 1 January 2005 are carried at restated cost; and subsequent purchases are carried at cost, less accumulated amortization and impairment.

Amortization

Intangible assets are amortized principally on a straight-line basis considering the estimated useful lives. Related intangible assets are amortized when they are ready to use. The expected useful lives of intangible assets are 5 years.

2.4.5 Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. 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.

If an asset's or cash generating unit's recoverable amount is less than its carrying value the value of this asset or cash generating unit is discounted to recoverable amount. Impairments are recognized through profit or loss.

2.4.6 Inventories

Inventories are measured at the lower of cost or net realizable value. Inventories comprise of construction costs of housing units (completed and in-progress) and the costs of land used for these housing projects. Cost elements included in inventory are purchase costs, conversion costs and other costs necessary to prepare the asset for its intended use. Unit costs of the inventories are valued at the lower of cost or net realizable value. Housing units which are completed and ready for delivery to customers together with work-in progress costs for housing units which will be completed within a year are classified as short term inventories, and which will not be completed within a year are classified as long term inventories in the financial statements.

2.4.7 Financial instruments

The Company has the following financial assets: cash and cash equivalents, financial investments and trade and other receivables; and has the following financial liabilities: loans and borrowings, trade and other payables.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

i) Non-derivative financial assets

The Company initially recognizes the financial assets on the date they are originated.

Non-derivative financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below:

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial asset that is created or retained by the Company is recognized as a separate asset or liability.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash, bank deposits with maturity periods of less than three-months and other highly liquid short-term investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value. The carrying values of these assets are close to their fair values.

Financial assets at Fair value through profit or loss ("FVTPL")

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Held for trading financial assets recognized initially on the trade date by their carrying amount and adjusted to their fair value after initial recognition. Gain and losses of held for trading financial assets are recognized through profit or loss.

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. As of 31 December 2016, the Company has no held-to-maturity investments in its portfolio.

Available-for-sale financial assets ("AFS")

Quoted equity investments and quoted certain debt securities held by the Company that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value.

Available-for-sale financial assets are recognized at the commitment date of purchase. Gains and losses resulted from changes at the fair value of these assets are recognized in equity.

The fair value of available-for-sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income. As of 31 December 2016, the Company has no available for sale investments in its portfolio.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Reverse repurchase agreements

Marketable securities held as part of resale agreement commitments ("reverse repo") are accounted for under cash and cash equivalents in the statement of financial position. The difference between purchase and resale prices is accounted for as interest and amortized during the period of the agreement.

Trade receivables

Trade receivables are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably. An impairment loss in respect of trade receivables is the difference between its carrying amount, and the collectable amount. Losses are recognized in profit or loss and reflected in an allowance account against trade receivables. The Company assumes that the carrying values of trade receivables are close to their fair value.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

ii) Non-derivative financial liabilities

Financial liabilities and equity instruments issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities

Financial liabilities are recognized with fair values in initial registration date. Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate. In case of enforcing, cancelling or abolishing the obligations based on the agreement; the Company deducts aforesaid financial obligations from registrations.

Trade and other payables

Trade and other payables are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

iii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. In accordance with its treasury policy, the Company engages in swap contracts. If these derivatives do not qualify for hedge accounting and are accounted for as trading instruments, changes in their fair value are accounted in profit or loss.

Derivative financial instruments are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted in profit or loss.

iv) Paid-in capital

Ordinary shares

Ordinary shares are classified as paid in capital. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of any tax effects.

2.4.8 Offsetting

Financial assets and liabilities are offset when the Company has a legally enforceable right to set off, and when the Company has the intention of collecting or paying the net amount of related assets and liabilities or when the Company has the right to offset the assets and liabilities simultaneously.

2.4.9 Effects of foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates on the dates of the transactions. The Company's financial statements and operation results are presented in TL which is effective currency and presentation currency of the Company.

The Company uses the Central Bank buying rates of exchange that is valid at the transaction date, when converting the transactions made by foreign currency Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

2.4.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, such as investment property, are capitalized as part of the cost of that asset.

All other borrowing costs are recorded in the profit or loss in the period in which they are incurred.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2.4.11 Earnings per share

Earnings per share is calculated by dividing profit or loss by the weighted average number of ordinary shares outstanding during the period. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for own shares held (Note 23).

In Turkey, companies can raise their share capital by distributing "bonus shares" to shareholders from retained earnings. In computing earnings per share, such "bonus share" distributions are assessed as issued shares. Accordingly, the retrospective effect for those share distributions is taken into consideration in determining the weighted-average number of shares outstanding used in this computation.

2.4.12 Events after the reporting period

Events after the reporting period represent the events that occur against or on behalf of the Company between the reporting date and the date when statement of financial position was authorized for the issue. There are two types of events after the reporting period:

- those that provide evidence of conditions that existed as of the reporting period (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting date).

If there is evidence of such events as of reporting date or if such events occur after reporting date and if adjustments are necessary, the Company's financial statements are adjusted according to the new situation. The Company discloses the post-balance sheet events that are not adjusting events but material.

2.4.13 Provisions, contingent asset and liabilities

Provisions are recognized when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. If the related criteria not met, obligations must be disclosed in the notes to the financial statements.

If there is a probable cash inflow for an economic benefit, contingent asset must be disclosed in the notes to the financial statements. 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 recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.4.14 Taxes calculated on the basis of the company's earnings

The Company

According to Article 5/1(d) (4) of the New Corporate Tax Law No: 5220, the income of Real Estate Investment Trusts ("REIT") is exempt from Corporate Income Tax in Turkey. This exemption is also applicable to Quarterly Advance Corporate Tax.

According to New Corporate Tax Law Article 15/(3), the income of REITs is subject to 15% withholding tax irrespective of its distribution. The Council of Ministers has the authority to increase the withholding tax rate on REIT income to corporate income tax rate or reduce it to 0% or change it within the limits defined through publication of a Decree based on the Corporate Tax Law Article 15/(34). In accordance with New Corporate Tax Law Article 15/(2), income subject to corporate tax is also exempt from withholding tax.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

According to temporary Article (1) of the New Corporate Tax Law, resolutions of the Council of Ministers related with Income Tax Law numbered 193 and Tax Law No: 5422 are valid up to new Decrees published by the Council of Ministers. Determined rates cannot exceed statutory limits defined at New Corporate Tax Law.

Based on the resolution of the Council of Ministers related to the withholding tax rates which were determined as 15% according to the New Corporate Tax Law Article 15/(3) published in the Official Gazette dated 3 February 2009 numbered 27130, the withholding tax rate is determined as 0% and this resolution is effective on the same date. Thereof, in accordance with the Article 5/1(d) (4) of the New Corporate Tax Law, real estate investment company earnings, regardless of the fact they are distributed or not, will be subject to 0% withholding.

Since the Company is exempt from Corporate Income Tax in Turkey in accordance with Article 5 of the Corporate Tax Law, deferred tax is not recognized.

Current tax liability includes the tax payable on the taxable income for the period and the adjustments made to previous periods' tax liabilities, using tax rates enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates based on the laws that have enacted by the reporting date.

Deferred tax liabilities and assets are recognized in the financial statements from the enacted or substantially enacted tax rates to the extent that the temporary differences in the subsequent periods will be reversed. Deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

2.4.15 Employee benefits/Retirement pay provisions

In accordance with TAS 19 all actuarial gains and losses are recognized in other comprehensive income. The most important change in new TAS 19 is related to the accounting for the defined benefit obligations effective from 31 December 2012.

Under the Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Company. Such payments are considered as being part of defined retirement benefit plan as per IAS 19 *Employee Benefits*.

The retirement benefit obligation recognized in the financial statements represents the present value of the defined benefit obligation. All actuarial gains and losses have been recognized in the statement of other comprehensive income.

2.4.16 Share capital and dividends

Common shares are classified as equity. Expenses directly attributable to the issuance of common shares and share options are recognized in equity with net of tax. Dividends on common shares are recognized in equity in the period in which they are approved and announced.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

2.4.17 Related parties

For the purpose of the accompanying financial statements, the shareholders, key management personnel and the Board members, and in each case, together with their families and companies controlled by/affiliated with them; and investments are considered and referred to as the related parties. Shareholders and the Company's management are also included in the related parties. Related party transactions include the transfer of the assets and liabilities between institutions with or without a charge.

2.4.18 Leasing

Finance leasing is a leasing method which most of the risks and rewards transferred to lessee. All other leasing activities are classified as operational leasing.

The Company, as lessor in the operational lease transactions

Operational lease income is recognized in the profit or loss on a straight-line basis for the whole lease period in the agreement.

The Company, as lessee in the operational lease transactions

Operational lease expense is recognized in the profit or loss on a straight-line basis for the whole lease period in the agreement. Start-up costs for the realization and optimization of the operational lease agreement are added to the cost of the leased asset and amortized through the leased time on a straight line basis method.

The Company, as lessee in the finance lease transactions

Tangible assets acquired by finance leasing are recognized both as an asset and liability in the statement of financial position of the Company. The value of these assets is determined as lower of fair value or present value of future lease payments. Financial costs arising from leasing transactions are distributed in a fixed rate through the lease agreement period.

2.4.19 Statement of cash flows

The Company presents statement of cash flows as an integral part of other financial statements to inform the users of financial statements about the changes in its net assets, its financial structure and its ability to manage the amount and timing of its cash flows under new conditions. Cash and cash equivalents are comprised of cash, receivables from reverse repos and time deposits with maturity shorter than three months.

2.4.20 Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company Management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

2.4.21 Restrictions on the investment portfolio of real estate investment trusts

Information given in "Control of compliance with restrictions on the investment portfolio" notes are summarized and derived from the financial statements prepared in accordance with the Communiqué No: II - 14.1 and also within the framework of compliance control of the portfolio restrictions clause of Communiqué No: III - 48.1, "Communiqué on Principles Regarding Real Estate Investment Companies".

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

3. Equity accounted investees

The investments that are valued using equity method are shown in the financial statements of the Company by using equity method. Company's business partnerships that valued according to equity method are listed below:

	Ownership (%)	31 December 2016	Ownership (%)	31 December 2015
Kanyon	50	1.563.593	50	1.599.475
		1.563.593		1.599.475

The summarized financial statements information of the jointly control entities under the equity method are listed below:

Kanyon	31 December 2016	31 December 2015
Current assets	10.424.627	8.583.774
Non-current assets	2.121.848	2.299.608
Short-term liabilities	(7.965.032)	(6.058.374)
Long-term liabilities	(1.454.258)	(1.626.058)
Net assets	3.127.185	3.198.950

Kanyon	1 January- 31 December 2016	1 January- 31 December 2015
Income for the period	42.532.804	24.451.381
Expense for the period (-)	(41.184.428)	(24.467.059)

The Company recognized profit amounting to TL 674.188 resulting from consolidation of Kanyon with equity method for the year ended 31 December 2016 (31 December 2015: Loss TL 7.839) in the accompanying statement of profit and loss.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

4. Operating segments

Each segment of the Company is managed by the Company's management on project basis. Allocation of the resources to the segments is also managed on project basis.

	Ankara İş Kule Building	İstanbul İş Kuleleri Complex	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall	Real Hipermarket
31 December 2016									
<u>Sales Revenue</u>									
Rent income	2.848.896	44.887.617	4.819.590	732.406	4.024.755	3.385.905	1.699.341	34.619.914	6.921.618
Income from the right of construction	--	--	--	--	--	--	--	--	--
Income from the sales of real estate	--	--	--	--	--	--	--	--	--
Income from the sales of investment property	--	--	--	--	--	--	--	--	--
Income Fees and Service	--	565.498	--	--	--	--	--	220.520	--
Tenant contribution and service income	--	--	--	--	--	--	--	--	--
Other income	--	26.227	54.192	--	--	--	--	233.083	153.006
Investment Revenue	2.848.896	45.479.342	4.873.782	732.406	4.024.755	3.385.905	1.699.341	35.073.517	7.074.624
Insurance expense	60.655	939.743	26.395	27.024	20.603	9.248	6.824	454.277	149.892
Administrative expense	413.050	1.937.060	--	--	541	1.090	--	12.867.528	396
Tax and duty and other charges	273.002	1.556.038	163.895	22.603	11.060	48.704	28.714	1.658.415	382.105
Cost of sales of investment property and real estate	--	--	--	--	--	--	--	--	--
Cost of sales of investment property	--	--	--	--	--	--	--	--	--
Other	--	30.645	19.020	--	--	19.117	--	--	--
Cost of Sales	746.707	4.463.485	209.310	49.627	32.204	78.160	35.538	14.980.220	532.393
Gross Profit	2.102.189	41.015.858	4.664.473	682.779	3.992.552	3.307.746	1.663.804	20.093.295	6.542.231
Prepared based on IFRS 8 "Operating Segments"									
Capital investments	--	411.242	32.763	48.174	--	--	--	386.524	--

	İstanbul Esenyurt (Marmara park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Ofis Lamartine	Tuzla Çınarlı- bahçe Residence	Tuzla Operation and Trade Center	Tuzla Karma Proje	İzmir Ege Perla	Other Real Estate	Total
	--	--	3.847.930	106.660	1.756.443	98.194	61.500.000	5.655.700	6.831	--	176.911.800
13.496.328	--	--	--	--	--	--	--	--	--	--	13.496.328
--	--	--	--	--	--	--	--	156.964.797	--	--	156.964.797
--	--	45.000.000	--	--	--	--	--	--	--	--	45.000.000
--	--	--	--	--	4.240	3.253	44.688	78.376	--	--	916.575
--	--	--	--	--	--	--	--	--	--	--	--
--	--	--	--	--	--	1.288	--	--	--	--	467.796
14.933.996	--	48.847.930	106.660	1.760.683	102.735	61.544.688	5.734.076	156.971.628	--	--	395.194.964
--	--	20.082	164.980	50.066	1.223	--	22.746	--	--	--	1.953.757
--	--	--	5.983	249.485	55.530	--	2.022.633	--	--	--	17.553.295
--	--	68.615	33.222	75.036	4.528	888.695	469.740	--	--	--	5.684.374
--	--	--	--	--	--	--	--	137.410.941	--	--	137.410.941
--	--	46.995.218	--	--	--	--	--	--	--	--	46.995.218
--	--	--	14.419	1.850	--	--	46.157	--	--	--	131.208
--	--	47.083.915	218.603	376.437	61.281	888.695	2.561.276	137.410.941	--	--	209.728.793
14.933.996	--	1.764.014	(111.942)	1.384.247	41.452	60.655.993	3.172.799	19.560.687	--	--	185.466.172
--	--	--	38.326	--	--	15.539.715	9.031.243	26.807.606	81.543.796	--	133.839.389

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

	Ankara İş Kule Building	İstanbul İş Kuleleri Complex	Maslak Petrol Ofisi Building	Mallmarine Shopping Mall	İş Bankası Ankara Merkez Building	İş Bankası Ankara Kızılay Building	İş Bankası Antalya Merkez Building	Kanyon Shopping Mall	Real Hipermarket İstanbul Esenyurt
31 December 2015									
<u>Sales Revenue</u>									
Rent Income	8.568.472	47.204.838	4.556.270	614.564	3.780.000	3.180.000	1.596.000	31.634.035	6.138.010
Income from the right of construction	--	--	--	--	--	--	--	--	--
Income from the sales of real estate	--	--	--	--	--	--	--	--	--
Income from the sales of investment property	--	--	--	--	--	--	--	--	--
Tenant contribution and service income	--	694.402	--	--	--	--	--	210.108	--
Other income	--	47.005	--	--	--	--	--	36.553	--
Investment Revenue	8.568.472	47.946.245	4.556.270	614.564	3.780.000	3.180.000	1.596.000	31.880.696	6.138.010
<u>Cost of sales</u>									
Insurance expense	50.507	1.110.426	33.847	26.599	19.267	8.473	5.962	457.991	181.921
Administrative expense	67.119	656.205	--	150	--	--	--	13.441.880	--
Tax and duty and other charges	312.913	1.518.781	159.349	21.982	21.521	47.384	27.931	1.597.967	373.024
Cost from the sales of fixed asset	--	--	--	--	--	--	--	--	--
Cost of sales of real estate	--	--	--	--	--	--	--	--	--
Other	11.671	292.319	561.762	--	129.224	--	--	16.675	--
Cost of sales	442.210	3.577.731	754.958	48.731	170.012	55.857	33.893	15.514.513	554.945
Gross profit	8.126.262	44.368.514	3.801.312	565.833	3.609.988	3.124.143	1.562.107	16.366.183	5.583.065
Prepared based on IFRS 8									
"Operating Segments"									
Capital Investments	--	148.882	82.007	--	--	--	--	666.979	--

	İstanbul Esenyurt (Marmara Park)	İş Bankası Güneşli	İş Bankası Sirkeci	Lykia Lodge Kapadokya Hotel	Kemer Hotel Buildings	Taksim Lamartine	Tuzla Çınarlı- bahçe Residences	Zeytinburnu Land	Other real estate	Total
	--	6.965.062	4.059.680	1.128.353	1.923.938	45.852	--	3.808.387	--	125.203.461
13.496.328	--	--	--	--	--	--	--	--	--	13.496.328
--	--	--	--	--	--	4.731.900	--	--	--	4.731.900
--	69.500.000	--	--	--	--	--	--	--	--	69.500.000
--	--	--	--	--	4.452	--	--	--	--	908.962
--	--	--	--	--	8.795	--	--	--	--	92.353
13.496.328	76.465.062	4.059.680	1.128.353	1.937.185	4.777.752	--	3.808.387	--	213.933.004	
--	23.192	47.990	63.561	32.698	2.622	--	--	--	--	2.065.056
--	--	--	79.320	233.709	324.640	--	--	--	--	14.803.023
--	1.643.680	66.405	31.833	52.960	6.346	--	--	76.953	--	5.959.029
--	--	--	--	--	4.349.735	--	--	--	--	4.349.735
--	33.538.681	--	--	--	--	--	--	--	--	33.538.681
--	--	210.263	139.257	13.636	1.147	--	--	--	--	1.375.954
--	35.205.553	324.658	313.971	333.003	4.684.489	--	76.953	--	62.091.478	
13.496.328	41.259.509	3.735.022	814.382	1.604.182	93.263	--	3.731.434	--	151.841.526	
--	--	261.331	348.453	--	44.215	--	338.413.053	321.511.884	661.476.804	

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Reconciliation of income, assets and liabilities

Sales Revenue	1 January- 31 December 2016	1 January- 31 December 2015
Segment revenue	395.194.964	213.933.004
Undistributed revenue	9.337.894	8.079.095
Total Revenue	404.532.858	222.012.099
Cost of Sales	1 January- 31 December 2016	1 January- 31 December 2015
Segment Costs	209.728.793	62.091.478
Total cost of sales	209.728.793	62.091.478
Assets	31 December 2016	31 December 2015
Segment assets	4.521.787.358	3.810.485.275
Other assets	28.770.301	21.820.775
Non-segment related assets	336.462.535	292.894.529
Total assets	4.887.020.194	4.125.200.579
Liabilities	31 December 2016	31 December 2015
Segment liabilities	1.127.371.296	815.896.816
Other liabilities	598.303.242	518.668.912
Total liabilities	1.725.674.538	1.334.565.728

5. Cash and cash equivalents

	31 December 2016	31 December 2015
Demand deposits	1.517.124	1.445.587
Time deposits	124.178.302	92.200.051
Mutual funds	1.496.689	29.627.903
Receivables from reverse repos	--	8.309
Other cash equivalents	69.949	626.275
	127.262.064	123.908.125
Interest accrued on cash and cash equivalents	(494.037)	(1.273.737)
Total cash and cash equivalents in the statement of cash flows	126.768.027	122.634.388

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Time deposits:			31 December 2016
Currency	Interest rate (%)	Maturity	
US Dollar	2,35%	January-February 2017	51.292.926
TL	8,20-10,70%	January-February 2017	72.885.376
			124.178.302

			31 December 2016
	Cost	Fair Value	
Mutual Funds	1.496.018	1.496.689	
	1.496.018	1.496.689	

Time deposits:			31 December 2015
Currency	Interest rate (%)	Maturity	
TL	0,30-1,90%	January 2016	80.196.944
US Dollar	9,45%	January 2016	12.003.107
			92.200.051

			31 December 2015
	Cost	Fair Value	
Mutual Funds	28.398.904	29.627.903	
	28.398.904	29.627.903	

As at 31 December 2016, The Company has no receivables from reverse repo.

Receivables from reverse repos			31 December 2015
Currency	Interest rate (%)	Maturity	
TL	10.05%	January 2015	8.309
			8.309

6. Financial investments/Derivatives

	31 December 2016	31 December 2015
Derivative instruments		
Derivative assets held for trading	566	14.811
Total	566	14.811

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

7. Loans and borrowings

The details of financial borrowings and financial leasing as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Short-term loans and borrowings:		
Short-term portion of long-term borrowings	121.419.856	107.653.358
Bonds issued	--	205.858.160
	121.419.856	313.511.518
	31 December 2016	31 December 2015
Long-term loans and borrowings:		
Long-term bank borrowings	519.552.638	375.591.597
Bonds issued	402.076.612	--
	921.629.250	375.591.597
	31 December 2016	31 December 2015
Leasings		
Short-term portions of long-term leasing	10.915.156	11.360.254
Long-term leasing	696.326	10.126.764
	11.611.482	21.487.018

The details of loans and borrowings as of 31 December 2016 and 31 December 2015 are as follows:

			31 December 2016	
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	9.701.886	9.003.505	26.989.523
US Dollar	Libor + 4,25	62.602.965	34.001.765	186.310.590
TL	11,75-14,50	384.667.112	78.414.586	306.252.525
			121.419.856	519.552.638
			31 December 2015	
Currency	Interest rate (%)	Original amount	Short-term (TL)	Long-term (TL)
Euro	Euribor+3,50	12.126.314	7.709.854	30.822.720
US Dollar	Libor + 4,25	71.413.192	28.053.938	179.587.061
TL	11,75-11,90	237.071.382	71.889.566	165.181.816
			107.653.358	375.591.597

Loans of the Company are used from a related party, İş Bankası (Note 24). The Company received a loan limit amounting to USD 160 million. As of reporting period, the investment properties are pledged in favour of İş Bankası amounting to USD 147 million and TL 685 million within the scope of the allocation of the loan.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası. However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2016, TL 140.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 40.000.000.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

As of 31 December 2016 and 31 December 2015 details of issued bonds are as follows:

31 December 2016				
ISIN CODE	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Registered Value
TRISGYE1915	87,000,000	11 Sep. 2016	10 Oct. 2019	89.076.612
TRISGY61912	100,000,000	29 June 2016	28 June 2019	100.000.000
TRISGY31915	213.000.000	5 April 2016	29 March 2019	213.000.000
				402.076.612
31 December 2015				
ISIN CODE	Issued Nominal Amount (TL)	Issue Date	Amortization Date	Registered Value
TRISGY41617	100.000.000	10 April 2014	7 April 2016	102.979.489
TRISGY71614	100.000.000	11 June 2014	8 July 2016	102.878.671
				205.858.160

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 100.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 29 June 2016. The interest rate for the first coupon payment of the bond was determined as 2.75%.

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 213.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 5 April 2016. The interest rate for the first coupon payment of the bond was determined as 2.81%.

The Company has issued 3-year maturity, variable-rate, 3-month coupon payment bonds amounting to a total of TL 87.000.000 to the qualified investors via İş Yatırım Menkul Değerler Anonim Şirketi on 11 October 2016. The interest rate for the first coupon payment of the bond was determined as 2.73%.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

8. Trade receivables and payables

Short-term trade receivables and payables

	31 December 2016	31 December 2015
<u>Trade receivables</u>		
Notes receivable	489.834	358.462
Rediscount of notes receivables (-)	(132)	(9.323)
Income accruals	21.975.676	15.788.258
Receivables from customers	5.982.612	1.938.445
Doubtful receivables	1.315.908	755.147
Provision for doubtful receivables (-)	(1.315.908)	(755.147)
Due from related parties (Note 24)	322.311	839.105
Other	--	2.905.828
	28.770.301	21.820.775
<u>Trade payables</u>		
Payables to suppliers	28.928.288	57.341.574
Due to related parties (Note 24)	5.270.465	2.885.201
	34.198.753	60.226.775

As of 31 December 2016, provision for doubtful trade receivables is TL 1.315.908 (31 December 2015: TL 755.147). Provision for doubtful receivables is determined based on the historical collection performance.

Movement of provision for doubtful receivables for the year is as follows:

	31 December 2016	31 December 2015
Opening balance, 1 January	(755.147)	(719.857)
Charge for the period	(946.274)	(363.444)
Provisions released	385.513	328.154
Closing balance	(1.315.908)	(755.147)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

9. Other receivables and payables

	31 December 2016	31 December 2015
Other short-term receivables ^(*)	1.211.817	3.814.131
	1.211.817	3.814.131
	31 December 2016	31 December 2015
<u>Other payables – short-term</u>		
Deposits and guarantees given	622.898	1.453.653
Other short-term payables	--	18.416
	622.898	1.472.069
<u>Other payables – long-term</u>		
Other long-term payables ^(**)	35.990.000	35.990.000
	35.990.000	35.990.000

^(*) Other short-term receivables are mainly comprised of receivables from Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi amounting to TL 844.210.

^(**) The TL 35.990.000 (31 December 2015: TL 35.990.000), is the amount to be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi in relation to the purchase of the land registered in Kartal District Section 53, block 2274, lots 395, 397, 398, 399 and 408 and block 2846, lot 1 and block 2847 lot 1. The consideration will be paid to Tecim Yapı Elemanları İnşaat Servis ve Yönetim Hizmetleri San. ve Tic. Limited Şirketi via the proceeds on the sale of houses as part of a revenue sharing agreement based on the project development to be performed on the acquired land.

10. Investment property

As of 31 December 2016 and 31 December 2015, the details of investment properties are as follows:

	31 December 2016	31 December 2015
Investment property under operating lease	3.093.679.000	1.775.824.259
Investment property under construction and other	620.989.994	1.515.804.430
Total	3.714.668.994	3.291.628.689

As of 31 December 2016, total insurance amount on investment properties is TL 1.098.165.859 (31 December 2015: TL 982.815.210).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

As of 31 December 2016 there are TL 74.119.268 capitalized financing expenses on the Company's investment properties.

	1 January 2016 opening balance	Purchases	Disposals	Fair value difference	31 December 2016 closing balance
Investment property under operating lease					
Ankara İş Tower Building	118.000.000	--	--	10.025.000	128.025.000
Marmarapark	130.000.000	--	--	16.620.000	146.620.000
İstanbul İş Tower Complex	673.838.909	411.242	--	123.644.849	797.895.000
İş Bankası Ankara Kızılay Building	34.930.000	--	--	3.365.000	38.295.000
İş Bankası Ankara Merkez Building	40.260.000	--	--	4.060.000	44.320.000
İş Bankası Antalya Merkez Building	19.585.000	--	--	2.430.000	22.015.000
Kapadokya Lodge Hotel	22.890.000	38.327	--	1.321.673	24.250.000
Mallmarine Shopping Mall	11.263.850	48.174	--	999.976	12.312.000
Maslak Building	94.031.500	32.763	--	7.050.737	101.115.000
Real Hypermarket Building	95.000.000	--	--	15.000.000	110.000.000
Office Lamartine	46.535.000	--	--	2.355.000	48.890.000
Tuzla Çınarlı Bahçe Project	2.490.000	--	--	110.000	2.600.000
Kanyon Shopping Mall	440.000.000	386.524	--	39.578.476	479.965.000
İş Bankası Sirkeci Building ⁽¹⁾	47.000.000	--	(46.095.000)	(905.000)	--
Tuzla Combined Project	270.075.000	9.031.243	--	(4.294.243)	274.812.000
Tuzla Technology and Operation Center Project	760.385.000	15.539.715	--	86.640.285	862.565.000
	2.806.284.259	25.487.988	(46.095.000)	308.001.753	3.093.679.000
Investment property under construction and other					
İzmir Ege Perla	210.393.969	26.807.606	--	42.239.425	279.441.000
İstanbul Finance Center Land	138.145.000	33.294.720	--	(1.839.720)	169.600.000
Kartal Project	102.326.542	47.614.006	--	(21.642.041)	128.298.507
Levent Land	3.998.919	47.431	--	64.138	4.110.487
Üsküdar Land	30.480.000	587.638	--	8.472.362	39.540.000
	485.344.430	108.351.401	--	27.294.163	620.989.994
Total	3.291.628.689	133.839.389	(46.095.000)	335.295.916	3.714.668.994

⁽¹⁾ The Company sold the Sirkeci Building, which was the tenant of T. İş Bankası A.Ş. in December 2016 at a price of TL 45.000.000.

The fair values of the Company's investment properties at 30 June 2016 have been arrived at on the basis of valuations carried out in November and December 2015 by four independent appraiser firms, and ongoing investments have been arrived at basis of valuations carried out in May 2016 by four independent appraiser firms. Appraisal firms are accredited independent firms licensed by the Capital Markets Board of Turkey, and have appropriate qualifications and recent experience in appraising properties in the relevant locations.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

	2016	2015
Investment property under operating lease		
Ankara İş Tower Building	Sales comparison approach	Sales comparison approach
Marmarapark	Sales comparison approach	Sales comparison approach
İstanbul İş Tower Complex	Sales comparison approach	Sales comparison approach
İş Bankası Ankara Kızılay Building	Sales comparison approach	Sales comparison approach
İş Bankası Ankara Merkez Building	Sales comparison approach	Sales comparison approach
İş Bankası Antalya Merkez Building	Sales comparison approach	Sales comparison approach
Kapadokya Lodge Hotel	Sales comparison and cost approach	Sales comparison and cost approach
Mallmarine Shopping Mall	Sales comparison approach	Sales comparison approach
Maslak Building	Sales comparison approach	Sales comparison and cost approach
	Cost and direct capitalization approach (harmonized)	
Real Hipermarket Building		Cost formation analysis
Office Lamartine	Sales comparison approach	Sales comparison approach
Tuzla Çınarlı Bahçe Project	Sales comparison approach	Sales comparison approach
Kanyon Shopping Mall	Sales comparison approach	Sales comparison approach
İş Bankası Sirkeci Building ^(*)	Sales comparison approach	Sales comparison approach
Tuzla Combined Project	Sales comparison approach	Sales comparison approach
Tuzla Technology and Operation Center Project	Sales comparison approach	Cost formation analysis
Investment property under construction		
İzmir Project	Sales comparison and cost approach	Sales comparison and cost approach
İstanbul Finance Center Land	Sales comparison and cost approach	Sales comparison and cost approach
Kartal Project	Sales comparison approach	Sales comparison approach
Levent Land	Fair value based on estate tax	Fair value based on estate tax
Üsküdar Land	Sales comparison approach	Sales comparison approach

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

	Opening Balance 1 January 2015	Purchases	Disposals	Fair value difference	Depreciation expense	Transfers	Closing Balance 31 December 2015
Investment property under operating lease							
Ankara İş Tower Building	107.300.000	--	--	10.700.000	--	--	118.000.000
Marmarapark	106.600.000	--	--	23.400.000	--	--	130.000.000
İstanbul İş Tower Complex	580.524.579	146.325	(10.835)	93.178.840	--	--	673.838.909
İstanbul İş Tower Complex 10 th and 11 th Floors ^(***)	4.649.210	2.557	--	--	(84.569)	(4.567.198)	--
İş Bankası Ankara Kızılay Building	29.500.000	--	--	5.430.000	--	--	34.930.000
İş Bankası Ankara Central Building	31.590.000	--	--	8.670.000	--	--	40.260.000
İş Bankası Antalya Central Building	17.200.000	--	--	2.385.000	--	--	19.585.000
İş Bankası Güneşli Building	46.600.000	--	(46.600.000)	--	--	--	--
Kapadokya Lodge Hotel	21.505.000	348.453	--	1.036.547	--	--	22.890.000
Mallmarine Shopping Mall	10.142.650	--	--	1.121.200	--	--	11.263.850
Maslak Building	82.248.600	82.007	--	11.700.893	--	--	94.031.500
Real Hypermarket Building	81.000.000	--	--	14.000.000	--	--	95.000.000
Office Lamartine	44.295.000	--	--	2.240.000	--	--	46.535.000
Tuzla Çınarlı Bahçe Project	2.246.000	44.215	--	199.785	--	--	2.490.000
Kanyon Shopping Mall	390.000.000	666.979	--	49.333.021	--	--	440.000.000
İş Bankası Sirkeci Building	37.200.000	261.332	--	9.538.668	--	--	47.000.000
	1.592.601.039	1.551.868	(46.610.835)	232.933.954	(84.569)	(4.567.198)	1.775.824.259
Investment property under construction and other							
İzmir Ege Perla Project	80.455.340	92.510.407	--	37.428.222	--	--	210.393.969
İstanbul Finance Center Land	122.455.000	5.062.836	--	10.627.164	--	--	138.145.000
Kartal Project ^(*)	45.504.427	83.930.365	--	--	--	(129.434.792)	--
Kartal Project	51.493.490	34.408.015	--	16.425.037	--	--	102.326.542
Levent Land	3.806.500	46.428	--	145.991	--	--	3.998.919
Tuzla Combined Project	174.500.000	73.463.285	--	22.111.715	--	--	270.075.000
Tuzla Technology and Operation Center Project	304.100.000	338.413.053	--	117.871.947	--	--	760.385.000
Üsküdar Land	25.665.000	342.173	--	4.472.827	--	--	30.480.000
Zeytinburnu Land ^(**)	183.458.314	31.748.374	--	--	--	(215.206.688)	--
	991.438.071	659.924.936	--	209.082.903	--	(344.641.480)	1.515.804.430
Total	2.584.039.110	661.476.804	(46.610.835)	442.016.857	(84.569)	(349.208.678)	3.291.628.689

^(*) The Company has started the project of Kartal Manzara Adalar in December 2014. Within the project sales agreements was signed as of 31 December 2016 for total of 453 real estate. Assets held for sale of the project has been classified in inventory account.

^(**) According to the Board of Directors resolution dated 9 October 2013, the Company decided to jointly purchase the plot total 130.024,5 m² area in İstanbul, Zeytinburnu District (former Topkapı Şişecam factory) with Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi ("NEF") with an amount of TL 320.000.000 excluding VAT, from Türkiye Şişe ve Cam Fabrikaları Anonim Şirketi and Anadolu Cam Sanayi Anonim Şirketi in order to develop a project with NEF. 75% and 25% of the plot would be purchased on behalf of the Company and NEF, respectively. However, on 7 August 2014, the Board of Directors decided to sell a 25% share of the Company's ownership to NEF, on 19 September 2014 the transfer of land was completed and both the Company and NEF have equal ownership shares of 50%. The fair value of the land has been determined as the fair value as at 19 September 2014. In total, TL 29,412,642 of financing costs of the project were capitalized in 2015.

^(***) As of 31 December 2014 The Company has reclassified İstanbul İş Kuleleri Complex 10th and 11th floor as investment properties to tangible assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

11. Inventories

<i>Short-term inventories</i>	31 December 2016	31 December 2015
<i>Non-Completed residential units</i>		
İzmir Ege Perla ^(*)	91.612.134	174.215.106
	91.612.134	174.215.106
<i>Long-term inventories</i>	31 December 2016	31 December 2015
<i>Non-completed residential units</i>		
Kartal project ^(**)	256.825.664	129.434.792
Topkapı project ^(***)	287.508.549	215.206.688
Tuzla Land ^(*)	171.172.017	--
	715.506.230	344.641.480

^(*)The Company has started the Ege Perla İzmir project registered in İzmir, Konak District on a plot total 18,392 m² area in the third quarter of 2012. Initial sales have started at October 2012. As of 31 December 2016 preliminary sales contracts have been signed for total 122 residences and the Company received advances amounting to TL 4.272.002 (31 December 2015: TL 143.445.186).

^(*)The Company has started the Tuzla Land project registered in İstanbul, Tuzla District. The Company has bought a land to in order to develop a project, which cost to TL 143,500,000.

^(**)The Company has started the Manzara Adalar project in İstanbul, Kartal, in December 2014. Sales agreements for 552 residences have been signed and advances have been received amounting to TL 184.311.055 as of 31 December 2016 (31 December 2015: 109.293.653 TL).

^(***)The Company has started the İn İstanbul Project in İstanbul, Topkapı, in May 2015. As of 31 December 2016 preliminary sales contracts have been signed for total 2,241 residences and the Company received advances amounting to TL 389.799.255. The Company explains the given guarantees for loans that uses Zeytinburnu land in Note 14.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

12. Tangible assets

	Buildings ^(*)	Machinery and equipment	Vehicles	Fixtures	Total
Cost					
Opening balance as of 1 January 2016	26.298.985	85.950	32.447	2.638.109	29.055.491
Purchases	--	--	--	235.600	235.600
Disposals	--	--	--	50.321	50.321
Transfer	--	--	--	--	--
Fair value difference	2.494.847	--	--	--	2.494.847
Closing balance as of 31 December 2016	28.793.832	85.950	32.447	2.823.388	31.735.617
Accumulated Depreciation					
Opening balance as of 1 January 2016	137.894	85.950	30.705	1.763.968	2.018.517
Current year charge	775.938	--	1.742	400.122	1.177.802
Disposals	--	--	--	20.033	20.033
Closing balance as of 31 December 2016	913.832	85.950	32.447	2.144.057	3.176.286
Net book value as of 1 January 2016	--	--	1.742	874.141	27.036.974
Net book value as of 31 December 2016	27.880.000	--	--	679.331	28.559.331
	Buildings	Machinery and equipment	Vehicles	Fixtures	Total
Cost					
Opening balance as of 1 January 2015	--	85.950	269.977	2.329.409	2.685.336
Purchases	--	--	--	308.700	308.700
Disposals	--	--	237.530	--	237.530
Transfer	4.567.198	--	--	--	4.567.198
Fair Value Difference	21.731.787	--	--	--	21.731.787
Closing balance as of 31 December 2015	26.298.985	85.950	32.447	2.638.109	29.055.491
Accumulated Depreciation					
Opening balance as of 1 January 2015	--	85.950	243.715	1.402.274	1.731.939
Current year charge	137.894	--	24.058	361.694	523.646
Disposals	--	--	237.068	--	237.068
Closing balance as of 31 December 2015	137.894	85.950	30.705	1.763.968	2.018.517
Net book value as of 1 January 2015	--	--	26.262	927.135	953.397
Net book value as of 31 December 2015	26.161.091	--	1.742	874.141	27.036.974

^(*) As at 31 December 2016, İş Kuleleri Kule: 2 10th and 11th floor offices are the most important tangible assets item of the Company which are currently used for registered address with amounting to TL 27.880.000. These areas get share from the mortgages amounting to USD 136 million and TL 185 million established in İş Kuleleri and Kule Çarşı (31 December 2015: USD 136 million and TL 185 million).

As at 31 December 2016, Company has tangible assets which is fully depreciated amounting to TL 1.256.135.

As at 31 December 2016 and 31 December 2015, there is not any pledge on tangible assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

13. Intangible assets

	Computer Programs	Total
Cost		
Opening balance as of 1 January 2016	2.360.560	2.360.560
Purchases	307.967	307.967
Closing balance as of 31 December 2016	2.668.527	2.668.527
Accumulated Depreciation		
Opening balance as of 1 January 2016	1.941.941	1.941.941
Current year charge	253.336	253.336
Closing balance as of 31 December 2016	2.195.277	2.195.277
Net book value as of 1 January 2016	418.619	418.619
Net book value as of 31 December 2016	473.250	473.250
	Computer Programs	Total
Cost		
Opening balance as of 1 January 2015	1.904.517	1.904.517
Purchases	456.043	456.043
Closing balance as of 31 December 2015	2.360.560	2.360.560
Accumulated Depreciation		
Opening balance as of 1 January 2015	1.759.489	1.759.489
Current year charge	182.452	182.452
Closing balance as of 31 December 2015	1.941.941	1.941.941
Net book value as of 1 January 2015	145.028	145.028
Net book value as of 31 December 2015	418.619	418.619

As at 31 December 2016 and 31 December 2015, Company has no intangible assets which is capitalized in the business area.

As at 31 December 2016, Company has intangible assets which is fully depreciated amounting to TL 1.756.761.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

14. Provisions, contingent assets and liabilities

	31 December 2016	31 December 2015
Debt provisions ^(*)	12.324.486	53.732
Total	12.324.486	53.732

	31 December 2016	31 December 2015
Letters of guarantee received ^(**)	324.504.913	264.143.109
Total	324.504.913	264.143.109

^(*) Debt provisions consists of company's provisions as of 31 December 2016 and profit sharing to be paid to T. İş Bankası A.Ş. related with Ege Perla project home and office sales.

^(**) Letters of guarantee consist of the letters received from tenants and suppliers of the Company.

Details of collaterals, pledges and mortgages ("CPM") given by the Company as of 31 December 2016, 31 December 2015 are as follows:

	31 December 2016	31 December 2015
A. CPM given for companies own legal personality ^(*)	1.217.026.199	920.677.358
B. CPM given in behalf of fully consolidated companies	--	--
C. CPM given for continuation of its economic activities on behalf of third parties ^(**)	201.793.100	19.347.069
D. Total amount of other CPM's	--	--
- Total amount of CPM's given on behalf of majority shareholder	--	--
- Total amount of CPM's given on behalf of other Group companies which are not in scope of B and C	--	--
- Total amount of CPM's given on behalf of third parties which are not in scope of C	--	--
Total	1.418.819.299	940.024.427

^(*) CPM given for the Company's own legal personality consists of letters of guarantee amounting to TL 14.703.799 and pledge amounting to USD 147.000.000 and TL 685.000.000. As of 31 December 2016, the investment properties are pledged in favour of İş Bankası amounting to USD 147.000.000 and TL 500.000.000 and 2nd degree 185.000.000 TL. As of 31 December 2016, the Company has 1st degree mortgage on its investment properties held amounting to USD 160.000.000 in favour of Türkiye İş Bankası. The Company received a counter guarantee amounting to USD 160 million from Türkiye İş Bankası to constitute financing guaranty provided. In this context, 1st degree mortgage was constituted in favour of İş Bankası from investment properties portfolio of the Company, İş Bankası Ankara Kızılay Building amounting to USD 11.000.000, İş Bankası Sirkeci Building amounting to USD 14.500.000, Kule-2 and Kule Çarşı amounting to USD 136.000.000 as 1st degree mortgage, Kule-2 and Kule Çarşı amounting to TL 185.000.000 as 2nd degree mortgage.

The Company borrowed a four-year loan of TL 180.000.000 from İş Bankası in order to finance the purchase of Zeytinburnu Land. As a security to the loan, a first-degree collateral of TL 250.000.000 on the land purchased has been granted to İş Bankası.

However, 25% of the Land, whose ownership is shared between the Company and Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi (Timur Gayrimenkul-NEF) in the rates of 75% and 25% respectively, has been sold to Timur Gayrimenkul Geliştirme Yapı ve Yatırım Anonim Şirketi on 19 September 2014. Following the sales transaction, the ownership shares of the Company and Timur Gayrimenkul has become 50%-50%. As of 31 December 2016, TL 140.000.000 of the loan borrowed for the Land has been repaid and the balance payable decreased to TL 40.000.000.

^(**) Represents the cost of guarantors given to the related banks in return for the loan amount in case the buyers of the Company's ongoing residential and office projects use mortgage/business loan from contracted banks. In this respect, as of 31 December 2015, the ratio of CPM given by the Company to the Company's shareholders' equity is 0,69% (31 December 2014: 0,84% and 31 December 2013: 0,96%).

1st degree mortgage was constituted in favour of İş Bankası in order to finance Tuzla Land of the Company, amounting to TL 250.000.000.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Operating leases

The Company, as the lessor in the operating lease transactions

The Company signed operating lease agreements as lessor for the investment properties in its portfolio with tenants which are shopping mall tenants, hotel operators and other third parties. The future minimum lease receivables as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016	31 December 2015
Less than 1 year	187.470.467	194.764.874
Between 1-5 years	577.702.293	517.139.988
More than 5 years	2.083.205.191	2.060.174.946
Total	2.848.377.951	2.772.079.808

15. Provision for employee benefits

	31 December 2016	31 December 2015
Unused vacation provisions	251.586	232.898
Total	251.586	232.898

	31 December 2016	31 December 2015
Severance pay indemnity	1.224.737	973.127
Total	1.224.737	973.127

Under Turkish Labor Law, the Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay who retired by gaining right to receive according to current 506 numbered Social Insurance Law's 6 March 1981 dated, 2422 numbered and 25 August 1999 dated, 4447 numbered with 60th article that has been changed. Some transitional provisions related to the pre-retirement service term were excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of TL 4.297 for each period of service as of 31 December 2016 (31 December 2015: TL 3.828).

TAS 19- Employee Benefits requires the development of actuarial methods for the determination of the retirement pay liability. For the year ended 31 December 2016, the Company recognizes all of its actuarial gains and losses under actuarial gains or losses in defined benefit plans which is under other comprehensive income non-reclassifiable in the profit or loss which is under equity. Actuarial assumptions used to calculate the total liability is given below:

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

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 of 31 December 2016, 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 reporting dates have been calculated assuming an annual inflation rate of 6,15% and a discount rate of 10,80%, resulting in a real discount rate of approximately 4,38%. The anticipated rate of for features is considered. As the maximum liability is revised semi-annually, the maximum amount of TL 3.297 effective from 31 December 2016 has been taken into consideration in calculation of provision from employment termination benefits.

	1 January- 31 December 2016	1 January- 31 December 2015
Opening balance at 1 January	973.127	831.795
Service cost	90.074	66.545
Interest cost	86.092	106.320
Payments	75.444	(31.533)
Actuarial difference	1.224.737	973.127

16. Prepaid expenses, other assets, deferred revenue and other liabilities

<u>Other current assets</u>	31 December 2016	31 December 2015
Job advances ^(*)	71.297.635	40.838.289
Prepaid expenses ^(**)	2.769.523	2.726.811
Total	74.067.158	43.565.100

^(*)As of 31 December 2016, job advances paid to Sera Yapı Endüstri ve Tic. A.Ş. under the agreement terms are TL 11.431.622 for Topkapı İnstanbul Project. (31 December 2015: TL 3.890.833)

The Company signed an agreement with Ant Yapı A.Ş. for the construction work of Manzara Adalar project located in Kartal, İstanbul. As of 31 December 2016, job advances paid to Ant Yapı A.Ş. under the agreement terms are TL 9.356.766. The Company also paid job advances to Tecim Yapı Elemanları A.Ş which is old owner of land under the revenue sharing agreement terms are TL 49.411.572 TL. (31 December 2015: TL 13.826.226).

^(**)As of 31 December 2016, prepaid expenses mainly consist of prepaid insurance expenses with related parties amounting TL 2.716.668 (31 December 2015: TL 2.726.125).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

<i>Other current assets</i>	31 December 2016	31 December 2015
Deferred VAT		92.522.546
Prepaid taxes and dues payable	26.205	14.748
	26.205	92.537.294
<i>Other short-term liabilities</i>	31 December 2016	31 December 2015
Taxes and funds payable	2.131.536	8.945.543
Payable Social Security cuts	390.419	144.365
	2.521.955	9.089.908
<i>Deferred revenue (Short-term)</i>	31 December 2016	31 December 2015
Advances received ^(*)	4.272.002	143.445.186
Deferred revenue ^(**)	1.265.612	15.952.389
Short-term deferred revenue to related (Note 24)	660.831	662.670
	6.198.445	160.060.245
<i>Deferred revenue (Long-term)</i>	31 December 2016	31 December 2015
Deferred revenue ^(**)	574.110.310	352.500.640
Advances received ^(***)	3.570.780	3.376.201
Total	577.681.090	355.876.841

^(*) Advances received consist of advances for sales related with Ege Perla Project. (Note 11).

^(**) TL 388.799.255 part of the balance is comprises of the advances received from the sales of Topkapı Project and TL 184.311.055 from Kartal Manzara Adalar Project. (Note 11)

^(***) All of the balance is comprises of the rent payments collected from Real Hipermarketler Zinciri A.Ş as contribution to project.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

17. Shareholders' equity

Share capital

The composition of the paid-in share capital as of 31 December 2016 and 31 December 2015 are as follows:

	31 December 2016		31 December 2015	
	(%)		(%)	
İş Gayrimenkul Yat. Ort. A.Ş.				
Türkiye İş Bankası A.Ş.	44,08	374.659.401	42,23	315.073.304
Anadolu Hayat Emeklilik A.Ş.	7,11	60.421.337	7,11	53.028.605
Other	48,81	414.919.262	50,66	377.898.091
Historic share capital	100	850.000.000	100	746.000.000

At the Annual General Meeting on 24 March 2016 the Company's capital of TL 850.000.000 has been decided to be removed by increasing the total amount to be covered from the profit of TL 104.000.000 in 2015. Related capital increase decision, approved by the Capital Markets Board on 25 May 2016, has been registered by İstanbul Trade Registry Office.

The total number of ordinary shares consists of 850.000.000 (31 December 2015: TL 746.000.000) shares with a par value of TL 1 per share. All of the shares are issued to name and TL 1.214.286 (31 December 2015: TL 1.065.714) of the total amount is Group A and TL 848.785.714 (31 December 2015: TL 744.934.286) of the total amount is Group B shares. Group A shareholders have the privilege to nominate candidates during the Board of Directors member elections. One member of Board of Directors is selected among the candidates nominated by Group B shareholders while the rest is selected among the candidates nominated by Group A shareholders. There is no other privilege given to the Group A shares.

Adjustment to share capital

Adjustment to share capital amount is TL 240.146.090 as of 31 December 2016. Adjustment to share capital represents the restatement effect of the cash contributions to share capital equivalent to purchasing power of TL.

Share premium

As of 31 December 2016, share premiums amounting TL 423.981 represent excess amount of selling price and nominal value for each share during initial public offering of the Company's shares (31 December 2015: TL 423.981).

Restricted reserves

	31 December 2016	31 December 2015
Legal reserves	36.305.282	28.240.772
Total	36.305.282	28.240.772

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Legal reserves consist of first and second legal reserves. The first legal reserve is appropriated out of statutory profits at the rate of 5% per annum, until the total reserve reaches 20% of the paid-in share capital. The second legal reserve is calculated as the 10% of dividend distributions, in excess of 5% of paid-in capital. Under the TCC, the legal reserves can be used only to offset losses and are not available for any other usage unless they exceed 50% of paid-in capital.

Prior years' profits

	31 December 2016	31 December 2015
Prior years' profits	1.589.596.928	1.197.948.571
Total	1.589.596.928	1.197.948.571

Dividend distribution

The Annual General Meeting that held on 24 March 2016, the amounting TL 131.452.191 from net profit has been committed to be distributed on a cash basis. It is been decided that as a first legal reserve TL 6.572.510 and second legal reserve TL 1.492.000 will be reserved. Amounting to TL 52.220.000 cash profit share was paid TL 35.000.000 of this amount was financed by extraordinary reserves and TL 17,220,000 of it financed by profit of 2015.

In the Ordinary General Shareholders' Meeting held on 24 March 2016, the distribution of 2015 net profit was determined as follows:

	Amount
First legal reserve (TCC 466/1) 5%	6.572.510
Dividend ^(*)	17.220.000
Second legal reserve (TCC 466/2)	1.492.000
Capital increase through bonus issues	104.000.000
Transferred to prior years' profits	391.648.357
Dividend ^(*)	35.000.000
Total	555.932.867

^(*) Amounting to TL 52.220.000 cash profit share was paid TL 35.000.000 of this amount was financed by extraordinary reserves and TL 17,220,000 of it financed by profit of 2015.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

18. Revenue and cost of revenue

	1 January- 31 December 2016	1 January- 31 December 2015
Rent income	176.911.800	125.203.461
Income from sales of real estate	156.964.797	4.731.900
Income from sales of investment property	45.000.000	69.500.000
Income from right of construction	14.933.996	13.496.328
Tenant contribution and service income	916.575	908.962
Other revenue	467.796	92.353
Total real estate revenues	395.194.964	213.933.004
Interest income on bank deposits	8.449.466	3.577.398
Gain on buy/sell of marketable securities	877.144	3.217.639
Interest income from reverse repos	11.284	38.263
Interest income from government bonds, treasury bills and private sector bonds	--	1.245.795
Total debt instruments revenue	9.337.894	8.079.095
Total revenue	404.532.858	222.012.099
	1 January- 31 December 2016	1 January- 31 December 2015
Cost of sales of real estate	(137.410.941)	(4.349.735)
Cost of sales of investment property	(46.995.218)	(33.538.681)
Cost of administrative expenses	(17.553.295)	(14.803.023)
Taxes and dues	(5.684.374)	(5.959.029)
Insurance expenses	(1.953.757)	(2.065.056)
Other	(131.208)	(1.375.954)
Total	(209.728.793)	(62.091.478)

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

19. Marketing, sales and distribution expenses/Administrative expenses

	1 January- 31 December 2016	1 January- 31 December 2015
General administrative expenses		
Personnel expenses	9.120.562	7.734.162
Outsourced service expenses	5.650.574	5.441.325
Depreciation and amortization	1.431.138	706.098
Taxes and dues	177.997	1.092.984
Other	2.033.027	220.565
Total	18.413.298	15.195.134
Marketing, sales and distribution expenses		
Advertising expenses	13.352.986	18.863.415
Consultancy expenses	2.304.508	1.005.897
Office expenses	1.555.692	452.850
Other	1.492.335	979.590
Total	18.705.521	21.301.752

20. Expenses by nature

	1 January- 31 December 2016	1 January- 31 December 2015
Personnel expenses		
General administrative expenses	9.120.562	7.734.162
Total	9.120.562	7.734.162
Depreciation and amortization		
General administrative expenses	1.431.138	706.098
Total	1.431.138	706.098

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

21. Other operating income/expense

	1 January- 31 December 2016	1 January- 31 December 2015
Other Operating Income		
Revaluation income of investment property	363.976.922	442.016.857
Foreign exchange gains	12.281.546	42.514.729
Other	665.613	1.465.215
Total	376.924.081	485.996.801
	1 January- 31 December 2016	1 January- 31 December 2015
Other Operating Expense		
Foreign exchange losses	(11.470.876)	(17.210.075)
Revaluation expense of investment property	(28.681.004)	--
Total	(40.151.880)	(17.210.075)

22. Finance income/expense

	1 January- 31 December 2016	1 January- 31 December 2015
Finance expenses		
Foreign exchange losses	(44.346.825)	(38.039.781)
Interest expense on loans and borrowings	(30.259.031)	(1.710.293)
Other interest expense	(132)	(9.331)
Derivative losses	(14.245)	--
Total	(74.620.233)	(39.759.405)
	1 January- 31 December 2016	1 January- 31 December 2015
Finance income		
Dividend income	--	500.000
Derivative gains	--	2.989.650
Total	--	3.489.650

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

23. Earnings per share

	1 January- 31 December 2016	1 January- 31 December 2015
Number of shares in circulation during the period	74.600.000.000	68.040.000.000
Bonus shares	10.400.000.000	6.560.000.000
Number of shares in circulation as of 31 December	85.000.000.000	74.600.000.000
Weighted average number of shares in circulation ^(*)	85.000.000.000	85.000.000.000
Net profit for the period	420.511.402	555.932.867
Earnings per share	0,0049	0,0065
Diluted earnings per share	0,0049	0,0065

^(*) Capital increase is realized from internal sources and increase in number of share is used for computation of prior period earnings per share.

As of 31 December 2016 capital of the Company consists of 85.000.000.000 shares that are valued 1 cent for each one.

24. Related party disclosures

Related parties of the Company are direct or indirect subsidiaries of İş Bankası and the executives and personnel of the Company.

Receivables from related parties are mainly due to sales transactions and the average payment term is one month. By nature no interest is calculated on these receivables and no guarantees have been received.

Payables due to related parties are mainly due to purchase transactions and the average credit payment term is one month. No interest is calculated on these payables.

Details of related party balances are as follows:

	31 December 2016	31 December 2015
Balances at İş Bankası		
Demand deposits	1.517.124	1.445.587
Time deposits	124.178.302	92.200.051
Receivables from reverse repo transactions	--	8.309
Other current assets	69.949	--
Total	125.765.375	93.653.947

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

The Company has letters of guarantee amounting TL 14.703.799 (31 December 2015: TL 14.956.957) from İş Bankası. In addition, 1st degree mortgage is instituted by the Company in favour İş Bankası amounting to TL 685.000.000 and USD 147.000.000 on some investment properties.

As of 31 December 2016 and 2015, the Company has mutual funds, established by, İş Bankası and İş Portföy Yönetimi A.Ş.

	31 December 2016			
	Short Term Trade Receivable	Short Term Prepaid Expenses	Short Term Trade Payable	Deferred Income
Balances with related parties				
Anadolu Anonim Türk Sigorta A.Ş.	--	2.716.668	1.499.640	--
Anadolu Cam Sanayii A.Ş.	29.047	--	--	18.462
Anadolu Cam Eskişehir Sanayi A.Ş.	1.574	--	--	--
Anadolu Hayat Emeklilik A.Ş.	1.064	--	--	41.389
Cam Elyaf Sanayii A.Ş.	1.048	--	--	--
Camış Madencilik A.Ş.	10.220	--	--	6.830
Çayırova Cam Sanayii A.Ş.	525	--	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	--	3.356
İş Merkezleri Yönetim ve İşletim A.Ş.	--	--	1.701.858	11.787
İş Net Elektronik Hizmetler A.Ş.	--	--	4.759	--
İş Yatırım Menkul Değerler A.Ş.	--	--	--	33.898
İş Finansal Kiralama A.Ş.	--	--	7.709	--
Kanyon Yönetim İşl. Paz. Ltd. Şti.	--	--	1.836.509	323.519
Madencilik Sanayii ve Ticaret A.Ş.	525	--	--	--
Mepa Merkezi Pazarlama A.Ş.	525	--	--	--
Paşabahçe Cam San. Ve Tic. A.Ş.	76.964	--	--	48.918
Paşabahçe Mağazaları A.Ş.	8.458	--	716	12.242
Soda Sanayii A.Ş.	--	--	--	15.312
Softtech Yazılım Teknolojileri A.Ş.	--	--	8.165	--
Şişecam Çevre Sistemleri A.Ş.	--	--	--	732
Şişecam Dış Ticaret A.Ş.	--	--	31.946	2.982
Şişecam Enerji A.Ş.	14.071	--	24.853	2.318
Şişecam Otomotiv A.Ş.	7.583	--	--	4.820
Şişecam Sigorta Hizmetleri A.Ş.	--	--	--	1.476
T İş Bankası A.Ş.	--	--	--	4.520
Trakya Cam Sanayii A.Ş.	--	--	--	29.154
Türkiye Şişe ve Cam Fabrikaları A.Ş.	170.707	--	--	99.116
Payables to shareholders (dividend)	--	--	476	--
Other	--	--	153.834	--
	322.311	2.716.668	5.270.465	660.831

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

31 December 2016				
Loans and borrowings				
Balances with related parties	Short Term	Long Term		
T. İş Bankası A.Ş.	103.666.106	513.874.749		
Transactions with related parties	Interest expense on loans	Capitalized interest expense		
T. İş Bankası A.Ş.	30.257.122	30.676.844		
31 December 2016				
Financial leasing				
Balances with related parties	Short Term	Long Term		
İş Finansal Kiralama A.Ş.	10.915.156	696.326		
31 December 2015				
	Short Term Trade Receivables	Short Term Prepaid Expenses	Short Term Trade payables	Deferred Income
Balances with related parties				
Anadolu Anonim Türk Sigorta A.Ş.	415	2.726.125	1.292.465	--
Anadolu Cam Sanayii A.Ş.	--	--	--	28.142
Anadolu Hayat Emeklilik A.Ş.	--	--	--	44.811
Avea İletişim Hizmetleri A.Ş.	49.345	--	45.638	59.330
Camiş Madencilik A.Ş.	--	--	--	9.389
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	--	3.634
İş Merkezleri Yönetim ve İşletim A.Ş.	32.237	--	54.005	10.055
İş Net Elektronik Hizmetler A.Ş.	--	--	2.862	--
İş Portföy Yönetimi A.Ş.	--	--	44.291	--
İş Yatırım Menkul Değerler A.Ş.	--	--	--	36.701
İş Finansal Kiralama A.Ş.	--	--	--	--
Kanyon Yönetim İşl. Paz. Ltd. Şti.	510.873	--	1.069.954	228.595
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	--	67.621
Paşabahçe Mağazaları A.Ş.	--	--	--	2.126
Soda Sanayii A.Ş.	--	--	--	22.049
Şişecam Dış Ticaret A.Ş.	--	--	--	4.963
Şişecam Enerji A.Ş.	12.003	--	7.424	1.398
Şişecam Sigorta Hizmetleri A.Ş.	--	--	--	2.585
T İş Bankası A.Ş.	22.188	--	--	--
Trakya Cam Sanayii A.Ş.	48.827	--	--	37.531
Türkiye Şişe ve Cam Fabrikaları A.Ş.	163.217	--	--	103.740
Payables to shareholders (dividend)	--	--	391	--
Other	--	--	179.017	--
	839.105	2.726.125	2.696.047	662.670

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

31 December 2015		
Loans and borrowings		
<i>Balances with related parties</i>	Short Term	Long Term
T. İş Bankası A.Ş.	107.653.358	375.591.597
<i>Transactions with related parties</i>	Interest expense on loans	Capitalized interest expense
T. İş Bankası A.Ş.	1.705.595	40.087.872
31 December 2015		
Financial leasing		
<i>Balances with related parties</i>	Short Term	Long Term
İş Finansal Kiralama A.Ş.	11.360.254	10.126.764

As of 31 December 2016, the Company entered into an interest option derivative transaction with İş Bankası and TL 566 (31 December 2015: TL 14.811) accrual of this derivative transaction is recognized in the Company's statement of financial position and also TL 14.245 derivative trading loss (31 December 2015: TL 2.989.650 derivative trading gains) is recognized in the Company's profit or loss for this transaction.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

1 January-31 December 2016					
Balances with related parties	Purchases ⁽¹⁾	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş.	4.587.613	--	--	--	--
Anadolu Cam Sanayi A.Ş.	--	--	1.912.439	34.296	--
Anadolu Cam Eskişehir Sanayi A.Ş.	--	--	1.334	--	--
Anadolu Cam Yenişehir Sanayi A.Ş.	--	--	1.334	--	--
Anadolu Hayat Emeklilik A.Ş.	180.481	--	4.150.839	58.607	--
Avea İletişim Hizmetleri A.Ş.	--	--	--	--	--
Cam Elyaf Sanayii A.Ş.	--	--	1.334	--	--
Camiş Madencilik A.Ş.	--	--	647.911	11.666	--
Camiş Elektrik Üretim A.Ş.	--	--	1.334	--	--
Çayırova Cam Sanayii A.Ş.	--	--	1.334	--	--
İş Finansal Kiralama A.Ş.	2.239.263	--	20.990	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	445.885	4.752	--
İş Merkezleri Yönetim ve İşletim A.Ş.	4.463.109	--	1.728.646	151.735	--
İş Net Elektronik Hizmetler A.Ş.	12.245	--	17.915	--	96.466
İş Portföy Yönetimi A.Ş.	--	--	49.347	--	3.592
İş Yatırım Menkul Değerler A.Ş.	--	--	4.517.238	48.000	--
Madencilik Sanayii ve Ticaret A.Ş.	--	--	1.334	--	--
Mepa Merkezi Pazarlama A.Ş.	--	--	1.334	--	--
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	4.672.275	83.927	--
Paşabahçe Mağazacılık A.Ş.	7.540	--	931.669	6.206	48.560
Soda Sanayi A.Ş.	--	--	1.511.197	27.153	--
Softtech Yazılım Teknolojileri A.Ş.	--	--	4.009.800	--	31.991
Şişecam Çevre Sistemleri A.Ş.	--	--	11.291	244	--
Şişecam Dış Ticaret A.Ş.	27.073	--	428.024	5.957	--
Şişecam Enerji A.Ş.	102.409	--	117.151	2.171	--
Şişecam Otomotiv A.Ş.	--	--	74.376	1.607	--
Şişecam Sigorta Hizmetleri A.Ş.	--	--	199.690	3.078	--
T. Şişe ve Cam Fabrikaları A.Ş.	--	--	8.964.039	136.779	--
Trakya Cam Sanayi A.Ş.	--	--	2.619.952	47.249	--
Trakya Polatlı Cam Sanayii A.Ş.	--	--	1.334	--	--
Trakya Yenişehir Cam Sanayii A.Ş.	--	--	1.334	--	--
Türkiye İş Bankası A.Ş.	--	8.460.750	72.698.324	3.509	14.033
	11.619.733	8.460.750	109.741.004	626.936	194.642

⁽¹⁾ The amount of purchases with Anadolu Anonim Türk Sigorta Anonim Şirketi is related to the insurance of the Company's real estates. The amount of purchases from the Business Centers Management and Operation Company is related to the operation of the Company's investment properties Business Land and Mallmarine Shopping Center.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

1 January – 31 December 2015					
Transactions with related parties	Purchases ⁽¹⁾	Interest received	Rent income	Other income	Other expense
Anadolu Anonim Türk Sigorta A.Ş.	2.266.427	--	--	--	--
Anadolu Cam Sanayi A.Ş.	--	--	2.007.254	42.769	--
Anadolu Hayat Emeklilik A.Ş.	192.890	--	3.890.118	62.794	--
Avea İletişim Hizmetleri A.Ş.	77.926	--	95.369	--	--
Camiş Madencilik A.Ş.	--	--	699.020	13.370	--
İş Finansal Kiralama A.Ş.	--	--	14.838	--	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	--	--	411.274	5.091	--
İş Merkezleri Yönetim ve İşletim A.Ş.	1.899.893	--	2.463.216	14.091	--
İş Net Elektronik Hizmetler A.Ş.	223.379	--	14.388	--	81.260
İş Portföy Yönetimi A.Ş.	--	--	43.071	--	97.105
İş Yatırım Menkul Değerler A.Ş.	--	302.390	4.254.532	44.665	3.741
Paşabahçe Cam San. Ve Tic. A.Ş.	--	--	4.648.234	86.838	--
Paşabahçe Mağazacılık A.Ş.	552	--	679.724	2.979	5.740
Soda Sanayi A.Ş.	--	--	1.722.701	33.351	--
Softtech Yazılım Teknolojileri A.Ş.	--	--	334.150	--	66.624
Şişecam Dış Ticaret A.Ş.	--	--	481.836	6.954	--
Şişecam Enerji A.Ş.	82.624	--	40.844	311	--
Şişecam Sigorta Hizmetleri A.Ş.	--	--	251.027	3.623	--
T. Şişe ve Cam Fabrikaları A.Ş.	--	--	8.444.909	149.826	--
Trakya Cam Sanayi A.Ş.	--	--	2.714.320	51.553	--
Türkiye İş Bankası A.Ş.	--	3.615.661	25.447.833	4.452	12.076
	4.743.691	3.918.051	58.658.658	522.667	266.546

⁽¹⁾ Anadolu Anonim Türk Sigorta A.Ş. balance is related to the insurance of investment properties. İş Merkezleri Yönetim ve İşletim A.Ş. balances are related to operational charges related to İş Kule Building and Mallmarine Shopping Centre, which are the Company's investment properties.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

As of 31 December 2016, TL 27.211.000 part of TRSISGY31915 ISIN coded bond which is issued in par value TL 213.000.000 and TL 6.000.000 TRSISGY61912 ISIN coded bond which is issued in par value TL 100.000.000 are in related parties and breakdowns are below:

<i>Transactions with related parties</i>	1 January-31 December 2016	
	TRSISGY31915	TRSISGY61912
Anadolu Anonim Türk Sigorta A.Ş.	15.000.000	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	5.000.000	2.500.000
İş Yatırım Menkul Değerler A.Ş.	2.711.000	--
İş Yatırım Ortaklığı A.Ş.	4.500.000	3.500.000
	27.211.000	6.000.000

<i>Transactions with related parties</i>	1 January-31 December 2015	
	TRSISGY41617	TRSISGY71614
Anadolu Anonim Türk Sigorta A.Ş.	6.549.496	8.230.294
Türkiye Sınai Kalkınma Bankası A.Ş.	3.274.748	--
İş Girişim Sermayesi Yatırım Ortaklığı A.Ş.	2.615.679	--
İş Portföy Yönetimi A.Ş.	2.152.271	5.370.267
İş Yatırım Menkul Değerler A.Ş.	30.264	105.965
İş Yatırım Ortaklığı A.Ş.	1.431.415	3.250.966
T. İş Bankası A.Ş.	65.588	79.536
	16.119.461	17.037.028

Benefits provided to key management personnel:

Benefits provided to board of directors, general manager, senior group presidents and group presidents are as follows:

	1 January- 31 December 2016	1 January- 31 December 2015
Salaries and other short term benefits	4.705.887	3.668.954
Employee termination benefits	454.561	439.951
	5.160.448	4.108.905

25. Nature and level of risks arising from financial instruments**a) Capital risk management**

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders and corporate shareholders and at the same time, provide consistent application of the most efficient capital structure to minimize the cost of capital.

The Company's capital and funding structure consists of cash and cash equivalents, share capital and retained earnings.

The Company management evaluates the cost of capital and the risk associated with each class of equity.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

b) Financial risk factors

The risks of the Company, resulting from operations, include market risk (including currency risk, fair value and cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program generally seeks to minimize the effects of uncertainty in financial markets on the financial performance of the Company.

Risk management is implemented according to the policies approved by the Board of Directors. According to the policy, once a risk is identified, it has been evaluated by each operating unit which is responsible to coordinate the work to minimize the exposure to that risk. The Board of Directors is in charge of forming written procedures in order to manage the foreign currency risk, interest risk, credit risk, and use of derivative and non-derivative financial instruments and the assessment of excess liquidity.

b.1) Credit risk management

Exposure to maximum credit risk as of reporting date	Receivables				Bank deposits	Derivative instruments	Other ^(***)
	Trade receivables		Other Receivables				
	Related parties	Other parties	Related parties	Other parties			
31 December 2016							
Maximum net credit risk as of the reporting date (A+B+C+D) ^(*)	322.311	28.447.990	--	1.211.817	125.695.426	566	1.566.638
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	749.404	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	322.311	23.151.179	--	1.211.817	125.695.426	566	1.566.638
B. Net book value of financial assets which are overdue but not impaired	--	5.296.811	--	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--	--
- Past due (gross carrying amount)	--	1.315.908	--	--	--	--	--
- Impairment (-)	--	(1.315.908)	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--

(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

(**) Collaterals consist of notes, cheques and mortgages.

(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Exposure to maximum credit risk as of reporting date	Receivables						
	Trade receivables		Other Receivables		Bank deposits	Derivative instruments	Other ^(***)
	Related parties	Other parties	Related parties	Other parties			
31 December 2015							
Maximum net credit risk as of the reporting date (A+B+C+D) ^(*)	839.105	20.981.670	--	3.814.131	93.645.638	14.811	30.262.487
- The part of maximum risk under guarantee with collateral etc. ^(**)	--	907.471	--	--	--	--	--
A. Net book value of financial assets that are neither past due nor impaired	839.105	20.981.670	--	3.814.131	93.645.638	14.811	30.262.487
B. Net book value of financial assets which are overdue but not impaired	--	807.167	--	--	--	--	--
C. Net book value of impaired assets	--	--	--	--	--	--	--
- Past due (gross carrying amount)	--	755.147	--	--	--	--	--
- Impairment (-)	--	(755.147)	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
- Not past due (gross carrying amount)	--	--	--	--	--	--	--
- Impairment (-)	--	--	--	--	--	--	--
- The part of net value under guarantee with collateral etc.	--	--	--	--	--	--	--
D. Off-balance sheet items with credit risk	--	--	--	--	--	--	--

^(*) Items such as guarantees received which increase the credibility are not included in the determination of the balance.

^(**) Collaterals consist of notes, cheques and mortgages.

^(***) Investment funds which are shown in cash and cash equivalent, 3 months government bonds reverse repo agreements and other liquid assets are shown in other.

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure to credit risks is monitored on a continuous basis.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

The aging of the overdue but not impaired receivables are as follows:

Receivables			
31 December 2016	Trade Receivables	Other Receivables	Total
Past due 1-30 days	2.711.580	--	2.711.580
Past due 1-3 months	1.309.686	--	1.309.686
Past due 3-12 months	1.251.428	--	1.251.428
Past due 1-5 years	24.117	--	24.117
Total overdue receivables	5.296.811	--	5.296.811
Total collateralized portion	4.209.872	--	4.209.872

Receivables			
31 December 2015	Trade Receivables	Other Receivables	Total
Past due 1-30 days	448.448	--	448.448
Past due 1-3 months	161.140	--	161.140
Past due 3-12 months	183.213	--	183.213
Past due 1-5 years	14.366	--	14.366
Total overdue receivables	807.167	--	807.167
Total collateralized portion	807.167	--	807.167

Collaterals held for trade receivables that are past due but not impaired as of the reporting date are as follows:

	31 December 2016		31 December 2015	
	Nominal Value	Fair Value	Nominal Value	Fair Value
Right to guarantee	2.239.730	2.239.730	--	--
Letters of guarantee	1.784.706	1.784.706	730.099	730.099
Cash collaterals	184.766	184.766	77.068	77.068
Note payable	580	580	--	--
Letters of blockage	90	90	--	--
	4.209.872	4.209.872	807.167	807.167

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

b.2) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows. On the other hand, derivative financial liabilities are presented based on their gross cash inflows and outflows which have not been discounted. Derivative instruments are settled and realized on a net basis based on their respective gross cash inflows and outflows which have not been discounted. When the receivables and payables are not fixed, the amount disclosed is calculated via an interest rate derived from yield curves as of the reporting date.

31 December 2016

Contractual maturities	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	1.054.660.588	1.207.004.581	11.735.938	152.475.698	976.155.033	66.637.912
Trade payables	34.198.753	34.198.753	34.198.753	--	--	--
Other payables	36.612.898	36.612.898	--	622.898	35.990.000	--
Total liabilities	1.125.472.239	1.277.816.232	45.934.691	153.098.596	1.012.145.033	66.637.912

Contractual maturities	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivatives cash inflow	566	--	--	--	--	--

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

31 December 2015						
Contractual maturities	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Non derivative financial liabilities						
Loans and borrowings	689.103.115	858.864.084	--	347.593.360	366.369.248	144.901.476
Trade payables	60.226.775	60.226.775	60.226.775	--	--	--
Other payables	37.462.069	37.462.069	--	1.472.069	35.990.000	--
Total liabilities	786.791.959	956.552.928	60.226.775	349.065.429	402.359.248	144.901.476
Contractual maturities	Carrying Value	Total cash outflows according to contract (I+II+III+IV)	Less than 3 months (I)	3-12 months (II)	1-5 years (III)	More than 5 years (IV)
Derivative financial liabilities						
Derivatives cash inflow	14.811	14.811	--	--	--	14.811

b.3) Market risk management

b.3.1) Foreign Currency Risk Management

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. Market risk exposures of the Company are measured using sensitivity analysis and stress scenarios.

There has been no change to the Company's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency transactions lead to currency risks.

The exchange rates applied as of 31 December 2016 and 31 December 2015 are as follows:

	USD Dollar	Euro	GBP
31 December 2016	3,5192	3,7099	4,3189
31 December 2015	2,3189	2,8207	3,5961

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

The foreign currency denominated monetary and non-monetary assets and liabilities of the Company as of the reporting date are as follows:

31 December 2016			
	TL Equivalent (Functional currency)	US Dollar	Euro
1. Trade Receivables	--	--	--
2a. Monetary Financial Assets	51.421.550	14.608.217	3.319
2b. Non-Monetary Financial Assets	285.492	81.124	--
3. Other	--	--	--
4. CURRENT ASSETS	51.707.042	14.689.341	3.319
5. Trade Receivables	--	--	--
6a. Monetary Financial Assets	--	--	--
6b. Non-Monetary Financial Assets	--	--	--
7. Other	--	--	--
8. NON CURRENT ASSETS	--	--	--
9. TOTAL ASSET	51.707.042	14.689.341	3.319
10. Trade Payables	23.820	6.769	--
11. Financial Liabilities	43.005.271	9.661.788	2.426.886
12a. Other Monetary Liabilities	--	--	--
12b. Other Non-Monetary Liabilities	759.837	110.493	100.000
13. SHORT TERM LIABILITIES	43.788.928	9.779.050	2.526.886
14. Trade Payables	--	--	--
15. Financial Liabilities	213.300.111	52.941.177	7.275.000
16a. Other Monetary Liabilities	--	--	--
16b. Other Non-Monetary Liabilities	6.573.624	853.275	962.500
17. LONG TERM LIABILITIES	219.873.735	53.794.452	8.237.500
18. TOTAL LIABILITIES	263.662.663	63.573.502	10.764.386
19. Net asset/liability position of Off balance sheet derivatives (19a-19b)	--	--	--
19a Off-balance sheet foreign currency derivative assets	--	--	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--
20. Net foreign currency asset/liability position	(211.955.623)	(48.884.161)	(10.761.067)
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a-10-11-12a-14-15-16a)	(204.907.654)	(48.001.517)	(9.698.567)
22. Fair Value of foreign currency hedged Financial asset	--	--	--
23. Hedged foreign currency assets	--	--	--
24. Hedged foreign currency liabilities	--	--	--

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

31 December 2015				
	TL Equivalent (Functional currency)	US Dollar	Euro	GBP
1. Trade Receivables	--	--	--	--
2a. Monetary Financial Assets	80.206.386	27.582.540	1.149	870
2b. Non-Monetary Financial Assets	--	--	--	--
3. Other	--	--	--	--
4. CURRENT ASSETS	80.206.386	27.582.540	1.149	870
5. Trade Receivables	--	--	--	--
6a. Monetary Financial Assets	--	--	--	--
6b. Non-Monetary Financial Assets	--	--	--	--
7. Other	--	--	--	--
8. NON CURRENT ASSETS	--	--	--	--
9. TOTAL ASSET	80.206.386	27.582.540	1.149	870
10. Trade Payables	609.924	209.769	--	--
11. Financial Liabilities	35.763.790	9.648.485	2.426.314	--
12a. Other Monetary Liabilities	--	--	--	--
12b. Other Non-Monetary Liabilities	761.003	152.443	100.000	--
13. SHORT TERM LIABILITIES	37.134.717	10.010.697	2.526.314	--
14. Trade Payables	--	--	--	--
15. Financial Liabilities	210.409.782	61.764.707	9.700.000	--
16a. Other Monetary Liabilities	--	--	--	--
16b. Other Non-Monetary Liabilities	145.471.432	48.870.282	1.062.500	--
17. LONG TERM LIABILITIES	355.881.214	110.634.989	10.762.500	--
18. TOTAL LIABILITIES	393.015.931	120.645.686	13.288.814	--
19. Net asset/liability position of Off balance sheet derivatives (19a-19b)	--	--	--	--
19a Off-balance sheet foreign currency derivative assets	--	--	--	--
19b. Off-balance sheet foreign currency derivative liabilities	--	--	--	--
20. Net foreign currency asset/liability position	(312.809.545)	(93.063.146)	(13.287.665)	870
21. Net foreign currency asset/liability position of monetary items (1+2a+5+6a- 10-11-12a-14-15-16a)	(166.577.110)	(44.040.421)	(12.125.165)	870
22. Fair Value of foreign currency hedged Financial assets	--	--	--	--
23. Hedged foreign currency assets	--	--	--	--
24. Hedged foreign currency liabilities	--	--	--	--

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Foreign currency sensitivity

The Company is mainly exposed to foreign currency risk on Euro and US Dollar.

The following table details the Company's sensitivity to 10% increase in the currency of Euro and US Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The positive amount indicates the increase in profit/loss and equity.

31 December 2016			
		Appreciation of foreign currency	Devaluation of foreign currency
	<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset/liability		(16.892.694)	16.892.694
Portion hedged against US Dollar risk (-)		--	--
US Dollar net effect		(16.892.694)	16.892.694
	<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability		(3.598.071)	3.598.071
Portion hedged against Euro risk (-)		--	--
Euro net effect		(3.598.071)	3.598.071
31 December 2015			
		Appreciation of foreign currency	Devaluation of foreign currency
	<u>If US Dollar changes against TL by 10%</u>		
US Dollar net asset/liability		(12.805.193)	12.805.193
Portion hedged against US Dollar risk (-)		--	--
US Dollar net effect		(12.805.193)	12.805.193
	<u>If Euro changes against TL by 10%</u>		
Euro net asset/liability		(3.852.892)	3.852.892
Portion hedged against Euro risk (-)		--	--
Euro net effect		(3.852.892)	3.852.892

b.3.2) Interest rate risk management

Interest rate risk represents the risk of fair value decrease in the Company's interest rate sensitive assets due to market fluctuations.

As of 31 December 2016, the maturity of the Company's assets and liabilities for refinancing is in line with the maturity analysis provided in the liquidity risk management section stated above. Therefore, the notes to the financial statements do not include a separate interest rate risk table.

The government bonds classified as financial asset at fair value through profit or loss in the accompanying financial statements is subject to interest rate risk. The sensitivity analyses have been determined based on the exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period at 1%. If interest rates increase or decrease by 1% as of 31 December 2016, the net profit would decrease or increase by TL 692.063 (31 December 2015: TL 501.704 decrease or increase).

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

		31 December 2016	31 December 2015
Fixed Rate Financial Instruments			
	Financial assets classified at fair value through profit or loss		
Financial assets	Time deposits at banks	124.178.302	92.200.051
	Receivables from reverse repo transactions	--	8.309
Financial Liabilities		396.278.593	258.558.400
Floating Interest Rate Financial Instruments			
Investment Funds		1.496.689	29.627.903
Financial Liabilities		658.381.995	452.031.734

b.3.3) Equity price risk

As of 31 December 2016, company has no equity in their portfolio. Therefore, there is no equity price risk.(31 December 2015: None)

26. Fair value of financial instruments

Financial assets

Financial investments, recognized in financial statements are reflected at fair values. The Company assumes that the carrying values of the cash and cash equivalents are close to their fair value because of their short-term nature.

Financial liabilities

The Company assumes that the carrying values of the trade payables and other financial liabilities are close to their fair value because of their short-term nature.

Financial liabilities are recognized with their acquisition costs including transaction costs and evaluated through amortized costs depending on the method of active interest rate.

The Company assumes that the carrying values of the floating interest rate banks loans are close to their fair value, since floating interest rate banks loans are re-priced recently. The Company assumes that the carrying values of the fixed interest rate banks loans are close to their fair value, since the opening date of the bank loan is close to the reporting period and there is no significant change in the market interest rates. The estimated fair value of fixed rate financial liabilities is calculated by using discounted cash flows using current market interest rates. As of 31 December 2016, net book value of fixed rate loan is TL 384.677.111 and fair value of those loans are TL 392.299.950.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

31 December 2016	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Financial liabilities at amortized cost	Carrying value	Note
<u>Financial Assets</u>					
Cash and cash equivalents	125.765.375	1.496.689	--	127.262.064	5
Trade receivables	28.447.990	--	--	28.447.990	8
Due from related parties	322.311	--	--	322.311	24
Other financial assets	1.211.817	--	--	1.211.817	9
<u>Financial Liabilities</u>					
Loans and borrowings			425.508.251	425.508.251	7
Loans and borrowings from related parties	--	--	629.152.337	629.152.337	7
Trade payables	--	--	28.928.288	28.928.288	8
Trade payables to related parties	--	--	5.270.465	5.270.465	24
Other payables	--	--	36.612.898	36.612.898	9
	--	--			
31 December 2015					
<u>Financial Assets</u>					
Cash and cash equivalents	93.645.638	30.262.487	--	123.908.125	5
Trade receivables	20.981.670	--	--	20.981.670	8
Due from related parties	839.105	--	--	839.105	24
Other financial assets	3.814.131	--	--	3.814.131	9
<u>Financial Liabilities</u>					
Loans and borrowings			504.731.973	504.731.973	7
Loans and borrowings from related parties			205.858.160	205.858.160	7
Trade payables	--	--	57.530.728	57.530.728	8
Trade payables to related parties	--	--	2.696.047	2.696.047	24
Other payables	--	--	37.462.069	37.462.069	9

Fair Value of Financial Instruments

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

Level I: Financial assets and liabilities are carried at quoted prices in an active market which are used for similar financial assets and liabilities.

Level II: Other than quoted prices specified in Level I, financial assets and liabilities are carried at inputs used to determine direct or indirect observable market prices.

Level III: Financial assets and liabilities are carried at inputs which are used in determining fair value of financial assets and liabilities but not based on any observable market data.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

The levels of the financial assets and liabilities presented in fair values are as follows:

Fair Value Hierarchy as at Reporting Date

Financial assets	31 December 2016	Level 1	Level 2	Level 3
Investment properties	3.714.668.994	--	3.714.668.994	--
Tangible Assets	28.559.331	--	28.559.331	--
Financial assets held for trading	1.496.689	1.496.689	--	--
Derivatives held for trading	566	--	566	--
	3.744.725.580	1.496.689	3.743.228.891	--

Financial assets	31 December 2015	Level 1	Level 2	Level 3
Investment properties	3.291.628.689	--	3.291.628.689	--
Tangible Assets	27.036.974	--	27.036.974	--
Financial assets held for trading	29.627.903	29.627.903	--	--
Derivatives held for trading	14.811	--	14.811	--
	3.348.308.377	29.627.903	3.318.680.474	--

27. Events after the reporting period

On January 19, 2017, the Company used a cash loan amounting to TL 120,000,000 from Türkiye İş Bankası A.Ş., which is a related party to be used in the financing of projects, with a maturity of 4 years and paying quarterly interest and an annual cost of 13.62%.

28. Other Issues Affecting the Financial Statements Significantly or Disclosed in Explanations As to the Financial Statements Open, Interpretable and Understandable

In the direction of investment strategy within the scope of portfolio diversification and increase in current rent income of the Company and considering the synergy to be created as a result of the merger, initiating the negotiations of merger with TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. has been decided within the framework of other relevant legislation provisions within the framework of Capital Markets Law numbered 6362, Communiqué on Capital Markets Board's Significant Qualitative Operations and Disclosure Notice numbered II-23.1, Communiqué on Merger and Division of Capital Markets Board numbered. II-23.2, Turkish Commercial Code numbered 6102, Corporate Income Tax Law numbered 5520 and other relevant legislative provisions. As of the date of the report, merger negotiations with TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. are continuing.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

Additional Note: Control of compliance with restrictions on the investment portfolio

	The main accounts of separate financial statements	Related regulation	31 December 2016	31 December 2015
A	Capital and money market instruments	III-48.1. Article 24/(b)	156.032.365	123.908.125
B	Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(a)	4.521.787.358	3.810.485.275
C	Affiliates	III-48.1. Article 24/(b)	1.563.593	1.599.475
	Due from related parties (other receivables)	III-48.1. Article 23/(f)	--	--
	Other assets		207.636.878	189.207.704
D	Total assets	III-48.1. Md. 3/(k)	4.887.020.194	4.125.200.579
E	Loans and borrowings	III-48.1. Article 31	1.043.049.106	689.103.115
F	Other financial liabilities	III-48.1. Article 31	12.324.486	53.732
G	Financial lease obligations	III-48.1. Article 31	11.611.482	21.487.018
H	Due to related parties (other payables)	III-48.1. Article 23/(f)	--	--
I	Equity	III-48.1. Article 31	3.161.345.656	2.790.634.851
	Other liabilities		658.689.464	623.921.863
D	Total liabilities and equity	III-48.1. Article. 3/(k)	4.887.020.194	4.125.200.579
	Other separate financial information	Related regulation	31 December 2016	31 December 2015
A1	Capital and money market instruments amount held for 3-year real estate payments	III-48.1. Article 24/(b)	--	--
A2	Time balances/demand balances TL/foreign currency	III-48.1. Article 24/(b)	125.695.426	93.645.638
A3	Foreign capital market instruments	III-48.1. Article 24/(d)	--	--
B1	Foreign real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(d)	--	--
B2	Inactive land	III-48.1. Article 24/(c)	43.650.487	34.478.919
C1	Foreign affiliates	III-48.1. Article 24/(d)	--	--
C2	Participating to operating company	III-48.1. Article 28	1.563.593	1.599.475
J	Non-cash loans	III-48.1. Article 31	14.703.799	34.304.026
K	Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22/(e)	--	--
L	The sum of investments in money and capital market instruments in a single company	Series:VI No:11, Article.22/(l)	--	--

(⁽¹⁾ From the associates disclosed in Note 3, Kanyon is in the scope of the Company under the scope of Article 28 paragraph 1 of the "Communiqué on Principles Regarding Real Estate Investment Trusts" No: 48.1 of the CMB, III. The Company accounts for this associate according to the equity method in the accompanying financial statements. As of 31 December 2016, the Company's participation in Kanyon is TL 500.000 and does not exceed 10% of the total assets.

İş Gayrimenkul Yatırım Ortaklığı Anonim Şirketi

Notes to the Financial Statements For the Year Ended 31 December 2016

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

	Portfolio restrictions	Related regulation	31 December 2016	31 December 2015	Min/Max ratio
1	Mortgage amounts of the mortgaged lands that the project will be developed on without ownership	III-48.1. Article 22/(e)	0%	0%	Max 10%
2	Real estates, rights supported by real estates and real estate projects	III-48.1. Article 24/(a), (b)	93%	92%	Max 51%
3	Capital and money market instruments and subsidiaries	III-48.1. Article 24/(b)	3%	3%	Max 49%
4	Foreign real estates, rights supported by real estates and real estate projects, affiliates and capital market instruments	III-48.1. Article 24/(d)	0%	0%	Max 49%
5	Inactive land	III-48.1. Article 24/(c)	1%	1%	Max 20%
6	Participating to operating company	III-48.1. Article 28	0%	0%	Max 10%
7	Borrowings limits	III-48.1. Article 31	34%	27%	Max 500%
8	Time balances/demand balances TL/foreign currency	III-48.1. Article 22/(e)	3%	2%	Max 10%
9	The sum of investments in money and capital market instruments in a single company	Series: VI No:11, Article 22/(I)	0%	0%	Max 10%

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