

**AKFEN KARAKÖY GAYRİMENKUL YATIRIMLARI VE  
İNŞAAT A.Ş.**

**Company Appraisal Report**



**Türkiye Sınai Kalkınma Bankası A.Ş.**

**19 February 2013**

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## DISCLAIMER

This appraisal report (“Report”) has been issued for information purposes only with regards to the value of Akfen Karaköy Gayrimenkul Yatırımları ve İnşaat A.Ş. (“Akfen Karaköy”), as assessed by Türkiye Sınai Kalkınma Bankası A.Ş. (“TSKB”) and includes various documents and financial tables. This Report and/or the information contained here cannot be copied, disclosed or distributed to parties other than authorities to which Akfen Gayrimenkul Yatırım Ortaklığı A.Ş. (“Akfen GYO”) and/or Akfen Karaköy is required to submit a copy hereof. TSKB hereby explicitly waives and excludes any kind of responsibility or obligation arising out of or due to any data or omission on the documents or any written and/or oral information obtained from Akfen GYO, Akfen Karaköy and other sources in order to issue this report. Unless stated otherwise, the information in this Report is up-to-date and valid as of the date of this Report.

Analysis, opinions and results presented within this report have been constituted through our personal, objective and professional appraisal, assessment and interpretation of documents and information provided by Akfen GYO and Akfen Karaköy. The information and documents provided by Akfen GYO and the assumptions and the arguments concluded were all assumed to be true and correct in this Report.

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## *1. Introduction and Scope*

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## *Introduction and Scope*

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Akfen Gayrimenkul Yatırım Ortaklığı A.Ş. (“Akfen GYO”) has applied to Türkiye Sınai Kalkınma Bankası A.Ş. (“TSKB”) in order to obtain company appraisal consultancy services to assess and determine the value of Karaköy Gayrimenkul Yatırımları ve İnşaat A.Ş. (“Akfen Karaköy”, “Company”), which is a subsidiary of Akfen GYO.

This appraisal study has been carried out based on the financial tables of Akfen Karaköy and no detailed legal or financial inspections, accounting audits and/or management presentations have been performed in order to assess the value of the related Company upon the request, as indicated above.

Three methods are utilized for company appraisals. The Discounted Cash Flow (DCF) method calculates the current value of a company by determining a discount rate based on the risk profile of the company and in line with the future cash flows to be achieved by the company and the current market conditions. In the Multiplier Analysis Method, value of a company is assessed by considering the average of financial ratios of companies operating within the same sector as the company and/or financial ratios belonging to previous transactions realized within the sector. Since Akfen Karaköy is not currently operational and active, the DCF and Multiplier Analysis methods could not be utilized for this appraisal study. Therefore, the third method, the Net Asset Value method, has been used.

The value calculated by using the Net Asset Value expresses the “fair market value” of the Company. However, the main factor in sale-purchase transactions regarding an asset is the “price” agreed as a result of the negotiations that have taken place between a motivated buyer and a seller. However, attention should be drawn to the fact that the “price” which constitutes the ground for such sale-purchase transaction might be realized at a level different than the “fair market value”.

The fixed assets of the Company consist of properties belonging to and which are managed and represented by the General Directorate of Foundations and further classified as licensed foundations as per Article 6 of the Law of Foundations and

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the “Rental Agreement with Construction Requisite” related to these aforementioned properties was taken over by Akfen Karaköy on 22.06.2011 and an appraisal report has been issued by TSKB Gayrimenkul Değerleme A.Ş. in order to assess the fair market value of the rights and benefits arising out of the aforementioned rental agreement on 31.12.2012.

“The Investment Properties and Investment Properties in Progress” item have been revised according to the value stated in the related real estate appraisal report of TSKB, which used Net Asset Value method, and thus, the balance sheet dated 30 September 2012 of Akfen Karaköy was revised accordingly in order for all liabilities and liability allowances indicated under liabilities item to be deducted from the revised assets of the Company.

The financial tables assessed during this study have been obtained from Akfen Karaköy. Although TSKB has shown the utmost care and attention to eliminate any mistakes and omissions in this study; all major items affecting the appraisal results shall be considered with the possibility that such information may be incorrect and missing since the data has been obtained from external sources, and the same has been assumed in this study.

***2. Sector***

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## ***2. Sector***

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### ***2.1 Tourism Sector in the World***

Tourism generates added -value for the economies of many countries around the world as a directly and indirectly beneficial source for the economy. The tourism sector, usually one of the largest sectors, continues to develop and grow all around the world.

The tourism sector is a broad sector containing various activities, including touristic activities such as holiday planning, accommodation, holiday organization/sales, and it further includes transportation, auto rental, etc. activities not only of tourists, but of people who participate in such touristic activities.

With the globalization trend becoming preeminent since the 1980s, transportation and communication have become much more accessible and, therefore, a mobile environment has been created. Further, improving life standards has become another driving force behind the development of tourism. The sector affects various items and areas such as holidays, travel tours, hotels, parks, museums, highways, travel agencies, passenger transportation services, sports-health-culture tourism and offers employment opportunities for people who are involved in these areas and, therefore, booms the economy by increasing the expenditure of people who directly/indirectly create benefits in production.

The tourism sector has shown a tendency to stagnate during economic slowdown periods and tends to improve and grow in line with the economy during economic recovery periods. The tourism sector is also the impetus behind other main sectors, such as transportation, service and retail sectors.

Along with its contribution to revenue, tourism also plays an important role in balancing the deficit faced in balance of payments in foreign currencies. Since it offers employment opportunities for large masses, it also benefits from being amongst the sectors with the highest employment rates. The tourism sector, which is also an effective marketing and advertisement tool for countries, is conducted very consciously and proactively.



In accordance with the World Travel & Tourism Council’s Report for 2012 Report, tourism is one of the sectors with the highest share in gross national product. Around the world, travel and tourism sectors constitute more than 9% of Gross Domestic Product (GDP) in 2011 equaling to 6 trillion US Dollars and around 250 million people have been recruited within these industries. It is assumed that travel and tourism sectors will show an average annual growth of 4% over the next 10 years and will account for approximately 10% of total production around the world<sup>1</sup>.

## 2.2 Tourism Sector in Turkey

Turkey has been making progress as a result of the investments in the sector and tourism activities since the year 1980 and has become one of the preferred travel destinations in the world. In terms of the number of visitors, Turkey moved up to 6<sup>th</sup> place from 17<sup>th</sup> place and now ranks 11<sup>th</sup> in the world in terms of tourism receipts. The improvement in the number of foreign visitors coming to Turkey within the last ten years is indicated in the table below.

**Table 2.1: Number of Tourists Visiting Turkey (Thousand)**

Years	Domestic	Foreign	Total
2001	2,174	11,277	13,450
2002	2,293	12,922	15,215
2003	2,601	13,701	16,302
2004	3,060	17,203	20,263
2005	3,602	20,523	24,125
2006	3,873	19,276	23,149
2007	4,198	23,017	27,215
2008	4,549	26,431	30,980
2009	4,658	27,348	32,006
2010	4,517	28,511	33,028
2011	4,827	31,325	36,151
2012-9	4,032	25,063	29,095

Source: Ministry of Culture and Tourism

When these figures are examined, it is observed that the number of total tourists, which was around 33 million, increased by 9.5% in 2011 and reached 36.1 million people. This increase is mainly due to foreign visitors.

<sup>1</sup> World Travel & Tourism Council 2012

According to the 2011 report of Ministry of Tourism and Culture of Turkey, German tourists ranked first with a 15.4% share; Russian tourists ranked second with a share of 11.1% and British tourists ranked third with 8.2% share. A total of 54.4% of the foreign tourists visiting Turkey were from OECD countries.

Despite the increase in the number of tourists, the average expenditure amount per person, which is included in tourism receipts, has decreased between 2008 and 2010 due to global economic crisis. Yet, the expenditure of foreign visitors per person has increased by 4.4% between 2010 and 2011. However, since the domestic expenditure per person has decreased by 6.6%, the total average expenditure amount has increased by 1.1%. The main reason behind the decrease in personal expenditure amounts per person is the increase in foreign exchange rates in TL. Considering the data since 2001, a generally increasing pattern is observed both in the number of visitors and tourism receipts. The tourism receipts since 2001 are as indicated in the table below.

**Table 2.2: Tourism Receipts in Turkey**

Year	Domestic		Foreign		Total	
	Receipt (Million \$)	Average Expenditure (\$)	Receipt (Million \$)	Average Expenditure (\$)	Receipt (Million \$)	Average Expenditure (\$)
2001	2,680,908	1,233	7,386,246	655	10,067,155	748
2002	2,891,247	1,261	9,009,677	697	11,900,925	782
2003	3,526,520	1,356	9,676,623	706	13,203,144	810
2004	3,763,639	1,230	12,124,059	705	15,887,699	784
2005	4,224,203	1,173	13,929,300	679	18,153,504	752
2006	4,294,117	1,109	12,556,829	651	16,850,947	728
2007	4,497,055	1,071	13,989,952	608	18,487,008	679
2008	5,149,189	1,132	16,801,618	636	21,950,807	709
2009	5,396,260	1,158	15 853 074	580	21,249,334	664
2010	5,229,352	1,158	15,577,357	546	20,806,708	630
2011	5,222,099	1,082	17,798,294	568	23,020,392	637
2012-9	3,660,433	908	13,672,850	546	17,333,284	596

*Source: Ministry of Culture and Tourism*

The number of touristic facilities has also increased along with the number of tourists visiting Turkey. There are two types of facilities: those whose investment certificate applications to the Ministry of Tourism are still in progress and those that have obtained the required licenses. In 2001, facilities with a valid operating license totaled 1,998, and this amount increased by 32.5% to 2,647 as of the end of

2010<sup>2</sup>. The bed capacity also increased annually by an average of 6.1% for the same years and rose from 368,819 to 629,465 beds.

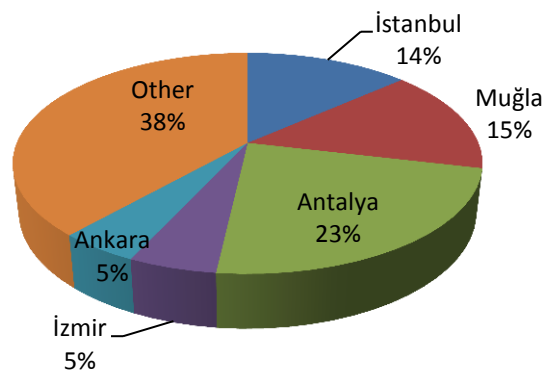
**Table 2.3: Number of Facilities and Beds in Turkey**

Years	Facilities with an Investment License		Facilities with an Operation License	
	Number of Facilities	Number of Beds	Number of Facilities	Number of Beds
2001	1.237	229 047	1 998	368 819
2002	1.138	222 876	2 124	396 148
2003	1.130	242 603	2 240	420 697
2004	1.151	259 424	2 357	454 290
2005	1.039	278 255	2 412	483 330
2006	869	274 687	2 475	508 632
2007	776	254 191	2 514	532 262
2008	772	258 287	2 566	567 470
2009	754	231 456	2 625	608 765
2010	877	252 984	2 647	629 465

Source: Ministry of Culture and Tourism

Considering tourism investments according to cities, it is determined that as of the end of 2010 more than 50% of the total number of facilities, which was around 3,524 for facilities with investment or operational licenses were located in Antalya, Muğla and Istanbul. The chart below depicts the distribution of touristic facilities according to cities as of the end of 2010.

**Chart 2.1: Distribution of Touristic Facilities according to Cities as of the end of 2009**



Source: Ministry of Culture and Tourism

<sup>2</sup> The data for 2011 was not available.

The occupancy rates of touristic facilities in Turkey between 2001 and 2011 were as indicated in the table below. The occupancy rate for touristic facilities in Turkey increased during this period and became 51.5% in 2011.

**Table 2.4: Occupancy Rate of Touristic Facilities in Turkey**

OCCUPANCY RATE(%)			
Year	Domestic	Foreign	Total
2001	12.80	32.82	45.62
2002	12.65	36.04	48.68
2003	13.33	33.56	46.90
2004	13.50	36.57	50.07
2005	13.16	39.22	52.38
2006	14.91	32.35	47.26
2007	14.43	36.68	51.12
2008	13.80	37.71	51.51
2009	13.52	35.38	48.90
2010	11.94	37.23	37.23
2011	13.34	38.12	51.46

*Source: Ministry of Culture and Tourism*

### ***Expectations***

It is evident that the reduction of rates applied by countries such as Spain, Portugal and Greece, which are under economic distress at the time, did not have any adverse effect on tourism receipts in Turkey thanks to Turkey's all-inclusive system and proper price quality ratios in the tourism sector which now runs properly and smoothly and this trend is expected to continue in the coming years. Further, political turmoil in countries such as Tunisia and Egypt also had a positive impact on Turkey's tourism sector.

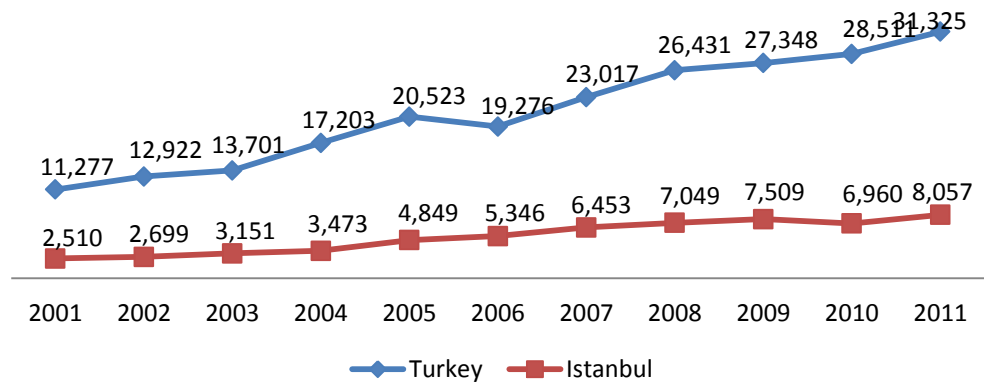
When this global environment is considered, the estimated number of foreign tourists is expected to be around 31-33 million in 2012 and the total income receipts is expected to reach above approximately 25 billion dollars.

2023 Tourism Strategy targets Turkey to become one of the five countries with the highest ranking of visitors and tourism receipts in the world. Long-term investments are promoted and supported in this regard and further, transportation network in Turkey is undergoing structural configuration works.

**2.3 The Tourism Sector in Istanbul**

Positive development observed in the tourism data for Turkey within the last few years has also been observed in İstanbul tourism. According to the reports of İstanbul City Directorate of Culture and Tourism, the number of foreign tourists visiting Turkey in the first six months in 2011, which was around 3.5 million, increased by 18.7% and reached 4.2 million during the same period of 2012. The tourism investments, Davos meeting in İstanbul and Shopping Festivals organized in İstanbul had a positive impact on the revival of tourism. The table below compares the number of foreign tourists visiting Turkey and İstanbul according to years.

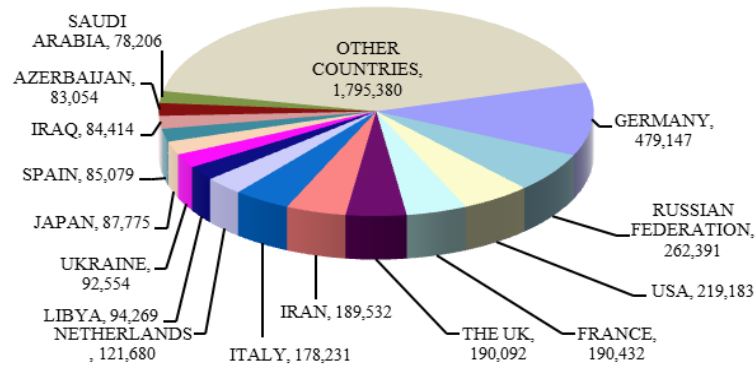
**Chart 2.2: Curve of number of foreign tourists visiting Turkey and İstanbul in the last 10 years**



Source: Ministry of Culture and Tourism

The breakdown of foreign tourist visiting İstanbul in the first half of 2012 according to their nationalities are as indicated below, in order: Germans (11.3%), Russians (6.2%), Americans (5.2%), French (4.5%), British (4.5%), Iranian (4.5%), Italians (4.2%), Dutch (2.9%), Libyans (2.2%), Ukrainians (2.2%), Japanese (2.1%), Spanish (2.0%), Iraqi (2.0%), Azeri (2.0%), Saudi Arabians (1.8%), Other countries (42.4%).

**Chart 2.3: Breakdown of Foreign Countries Visiting Turkey according to their Nationalities**



Source: Ministry of Culture and Tourism

Most of the tourists visiting Istanbul are from the United States and European countries. Also, within the last few years, Arabic tourists have started showing interest in Istanbul, and the number of tourists coming from these countries increased by 71% in the first half of 2012 compared to the same period of the previous year. The main Arabic countries with an increasing number of tourists are Saudi Arabia, Libya, Bahrain, Qatar, Iraq and Egypt.

The total capacity of the accommodation facilities in Istanbul is above 120,000, with 50,000 beds with municipality licenses and with 72,410 facilities with operation licenses.

**Table 2.4 : Ministry of Culture and Tourism – Number of Facilities with “Operation Licenses”**

Location	Europe		Anatolia		Total		Total Number of Beds
	Number of Facilities	Number of Rooms	Number of Facilities	Number of Rooms	Number of Facilities	Number of Rooms	
Private Facilities	79	8	2,835	177	5,907	366	<b>6,273</b>
Boutique Hotels	8	3	441	79	898	162	<b>1,060</b>
Five Star Hotels	39	8	10,777	2119	22,024	4,236	<b>26,260</b>
Four Star Hotels	90	5	10,080	436	20,185	867	<b>21,052</b>
Three Star Hotels	76	14	4,550	787	8,778	1,530	<b>10,308</b>
Two Star Hotels	51	6	1,797	199	3,451	379	<b>3,830</b>
One Star Hotels	12	1	439	47	842	106	<b>948</b>
Apartment Hotels	3	1	60	36	150	72	<b>222</b>
Golf Courses	2	-	755	-	2,322	-	<b>2,322</b>
Guesthouses	3	1	26	10	52	19	<b>71</b>
Motels	1	-	32	-	64	-	<b>64</b>
<b>Total</b>	<b>364</b>	<b>47</b>	<b>31,792</b>	<b>3,890</b>	<b>64,673</b>	<b>7,737</b>	<b>72,410</b>

Source: Ministry of Culture and Tourism

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Further, the total bed capacity of facilities which have obtained an investment certificate from the Ministry of Culture and Tourism and which are still under construction is 35,842.

***Karaköy- Salıpazarı Region***

When the Karaköy region, on which the Novotel project will be located, is examined the Salıpazarı Port appears to be an interesting and attractive area located within this region. The urban development project for Salıpazarı Port (Galataport Project), for which many previous privatization projects have been declined before, has now been approved in November 2012 by the Privatization High Council. Many important investors and hotel brands have purchased properties in this region with the hope of this project finally being carried out. Since this region is considered as a town center, even though it is currently inactive, with this transformation process, the region is expected to become a luxurious tourism center.

Karaköy is located very close to the cultural and historical texture of Istanbul in and with the completion of the Galataport Project, the historical and natural beauties of Istanbul, which now remain hidden in the port area and in the background shall be brought forward; the port shall become an international complex and the trade and employment are to be improved. There are many examples of incorporating such inactive and inert, but location-wise central, areas into the urban life of cities; therefore, Akfen's hotel project in Karaköy is becoming more and more valuable and rewarding.

### *3. The Company*



## 3. The Company

### 3.1 Incorporation and Current Status

Akfen Karaköy was incorporated on 31 May 2011 and is a subsidiary of Akfen GYO.

The main activity scope of the company includes planning investments for all kinds of touristic facilities, hotels and real estate, performing or contracting others to carry out the construction works of such projects, lease and operation thereof.

The Company has planned to undertake a tourism investment project on adjacent plots located in Beyoğlu/Istanbul, belonging to General Directorate of Foundations according to the “Rental Agreement with Construction Requisite” taken over by the Company in line with its activity scope on 22 June 2011. This investment project includes the construction of a 5 star facility consisting of 200 rooms, which shall be operated by a hotel operation and management company with an internationally renowned brand.

### 3.2 Shareholding and Capital Structure

The subscribed capital of the Company is 17.2 million TL as of 31.12.2012. The distribution of this subscribed capital amongst the shareholders is as stated in the table below:

**Table 3.1: Shareholding and Capital Structure of Akfen Karaköy**

Shareholders	Number of Shares (TL)	Shareholding Percentage (%)
Akfen Gayrimenkul Yatırım Ortaklığı A.Ş.	12,039,656	%69.998
Akfen Gayrimenkul Ticareti ve İnşaat A.Ş.	172	%0.001
Akfen Holding A.Ş.	172	%0.001
Keskin Global Yatırım Turizm İnşaat Ltd. Şti.	5,159,828	%29.999
Bilal Keskin	172	%0.001
<b>Total</b>	<b>17,200,000</b>	<b>%100.00</b>

Source: Akfen Karaköy

### 3.3 Financial Fixed Assets

As of the date of this appraisal report, there were no affiliated companies and/or subsidiaries of Akfen Karaköy.

### 3.4 Financial Tables

The balance sheet dated 30 September 2012 for Akfen Karaköy founded on 31.05.2011 is as indicated below:

**Table 3.2: Balance Sheet of Akfen Karaköy**

**CONDENSED BALANCE SHEET OF AKFEN KARAKÖY GAYRİMENKUL  
YATIRIMLARI VE İNŞAAT A.Ş.**

(TL)	30/09/2012
Cash and Cash Equivalents	420
Other Current Assets	1,894,362
<b>Total Current Assets</b>	<b>1,894,782</b>
Investment Properties and Investment Properties in Progress	90,419,683
Other Fixed Assets	9,610,340
<b>Total Fixed Assets</b>	<b>100,030,023</b>
<b>TOTAL ASSETS</b>	<b>101,924,805</b>
Other Short-Term Liabilities	1,514
<b>Total Short-Term Liabilities</b>	<b>1,514</b>
Deferred Taxes	17,370,306
<b>Total Long-Term Liabilities</b>	<b>17,370,306</b>
<b>Total Liabilities</b>	<b>17,371,820</b>
Paid-in Capital	15,071,416
Previous Year's Profit (Loss)	70,696,533
Net Term Profit	- 1,214,964
<b>Total Equities</b>	<b>84,552,985</b>
<b>TOTAL LIABILITIES</b>	<b>101,924,805</b>

With regards to “Investment Properties and Investment Properties in Progress”, which is one of the major items in the assets account of the Company, the Agreement requires as-built projects for the building to be prepared and approved by the related authorities, the planning and building licenses to be obtained and the construction works to be completed and the facility to be put into operation in five years as of the date of the agreement.

The “Other Current Assets” and “Other Fixed Assets” items under assets include the prepaid rental expense for five years for the aforementioned plot respectively both on a monthly and yearly basis.

**Table 3.2: Income Table of Akfen Karaköy**

**CONDENSED INCOME STATEMENT FOR AKFEN KARAKÖY GAYRİMENKUL YATIRIMLARI VE İNŞAAT A.Ş.**

<b>(TL)</b>	<b>30/09/2012</b>
Cost of Sales	- 1,171,602
<b>GROSS PROFIT/LOSS</b>	<b>- 1,171,602</b>
General Administration Expenses	- 241,633
Other Operating Costs	- 4
<b>OPERATING PROFIT</b>	<b>- 1,413,239</b>
Financial Expenses	- 5,723
Taxes (net)	203,998
<b>NET TERM PROFIT/LOSS</b>	<b>- 1,214,964</b>

The Company has not generated any operating profit yet, and the “Cost of Sales” item covers accrued rental expenses for aforementioned plot within the related term.

## *4. Appraisal*

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## ***4. Appraisal***

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### ***4.1. Scope and Methodology***

The Net Asset Value method has been utilized for determining the fair market value of Akfen Karaköy. The Net Asset Value method is based on the principle of calculating the “Adjusted Book Value” by calculating and deducting the approximate market value of all assets currently owned by the Company from the market value of all liabilities of the Company, without considering the possible future cash flows to be created by the Company.

In order to achieve this, all cost and expense items indicated on the balance sheet for certain fiscal terms need to be expressed with their current market values; therefore, estimated real values of all assets owned by the company and expertise values of all fixed assets shall be calculated and all financial and other liabilities of the Company shall be deducted from this amount in order to attain the net asset value.

The Net Asset Value of Akfen Karaköy has been calculated based on the balance sheet dated 30 September 2012, which is the most recent financial table of the Company.

The most important fixed asset item of the Company according to its balance sheet dated 30 September 2012 is “Investment Properties and Investment Properties in Process” has been revised according to the market value stated on the expertise report dated 31.12.2012 of TSKB Gayrimenkul Değerleme A.Ş. Values related to other items included in the assets of Akfen Karaköy and amounts related to the liabilities of the Company have been calculated over the amounts stated on the balance sheet based on the assumption that such figures reflect the actual market value.

The fixed assets of the Company consist of properties belonging to and which are managed and represented by the General Directorate of Foundations and further classified as licensed foundations as per Article 6 of the Law of Foundations and the “Rental Agreement with Construction Requisite” related to these aforementioned properties was taken over by Akfen Karaköy on 22.06.2011.

No detailed financial and legal inspection or financial audits have been carried out in order to verify the validity, accuracy and existence of accounts on which this appraisal study was based.

#### **4.2. Appraisal Results**

The Net Asset Value of the Company, based on the balance sheet dated 30 September 2012 and the expertise report dated 31.12.2012, has been valued as 86,253,302 TL.

**Table 4.1: Net Asset Value of Akfen Karaköy**

**NET ASSET VALUE OF AKFEN KARAKÖY GAYRİMENKUL YATIRIMLARI VE İNŞAAT A.Ş.  
AS OF 31/12/2012**

<b>TL</b>	
+ Cash and Equivalent	420
+ <b>Investment Properties and Investment Properties in Progress</b>	<b>92,120,000</b>
+ Other Current and Fixed Assets	11,504,702
<b>Total Assets</b>	<b>103,625,122</b>
- Other Short Term Liabilities	1,514
- Deferred Tax Liability	17,370,306
<b>Net Asset Value</b>	<b>86,253,302</b>