

HOTEL DEVELOPMENT AND INVESTMENTS B.V.

Company Appraisal Report



Türkiye Sınai Kalkınma Bankası A.Ş.

19 February 2013

DISCLAIMER

This appraisal report (“Report”) has been issued for information purposes only with regards to value of Hotel Development and Investments B.V. (“HDI”) 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 HDI 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, HDI 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 HDI. 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

1. Scope and Methodology

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 Hotel Development and Investments B.V. (“HDI”, “Company”), which is a subsidiary of Akfen GYO.

This appraisal study has been carried out based on the financial tables of HDI and no detailed legal and 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 HDI has recently been founded and is not currently operational and active; the DCF and Multiplier Analysis methods could not be utilized for this appraisal study. Therefore, the 3rd 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 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 HDI 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 HDI. 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 of 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.

HDI, is currently engaged in the Ibis Hotel Project in Moscow and has signed a share purchase agreement for obtaining long-term rental and ownership rights for Moscow Ibis Hotel's plot 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 Company is planning to realize the hotel project it took over on 24.11.2011 in Moscow in cooperation with Dinamo-Petrovskiy Park XXI Vek-MS Limited Company. The acquired company had signed an investment agreement in 2005 with the Moscow Government and is the beneficiary and right holder of the rental agreement signed on 25.11.2009 and which has been terminated on the date of this appraisal. Annexes dated 07.08.2010 and 12.07.2010 have been issued and incorporated into the rental agreement signed in 2009 in order to extend the project completion date until 31.12.2013. In November 2012, the Moscow Government unilaterally passed the decision to suspend the aforementioned investment. Despite this decision, in accordance with the resolution dated 11.04.2012 of Moscow Arbitration Tribunal, the request of the Moscow Government in this regard was rejected and this resolution came into force. However, on 06.08.2012, the Moscow Government passed the decision to initiate a tender in order to find a new investor for the aforementioned plot. Akfen GYO filed a lawsuit against the Moscow Government in this regard and the lawsuit process is progressing in favor of Akfen GYO. The legal proceedings are still ongoing with regards to the cancelled rental agreement between the Moscow Government and Akfen GYO.

2. Sector

2. Sector

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, is also continuing 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 of – not only tourists – but 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; therefore, booms the economy by increasing the expenditure of people who directly/indirectly create benefits in production.

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

Along with its contribution to revenues, 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 also is 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 world¹.

2.2 Tourism Sector in Russia

Economic Overview

Russia, as the major natural gas producer and the second largest petrol producer in the world, has the 10th largest economy in the World with a GDP around 1.5² trillion US Dollars. However, it was adversely affected from the economic crisis towards the end of the year 2008 and the Russian Economy shrank by 7.9% in 2009. The economy started improving in 2010 and an economical growth equal to 4.8% in 2010 and 4.2% in 2011 was achieved. In 2011, with this percentage, Russia became the 3rd country with the highest growth rate in the world. Russia's economic growth in 2012 was 3.5% and is expected to be around 3.9% in 2013.

Russia had double-digit inflation rates in 2008-2009 yet, the inflation rate dropped down to one-digit numbers in 2010 as a result of appreciation of ruble and low import rates and receded to 6.9%. Inflation again increased in 2011 and although the inflation rate, which was around 8-9% at the beginning of 2011 dropped down to 6%; average inflation rate in 2011 was recorded as 8.5%. Estimated inflation rate is around 6.5% for the years 2012 and 2013.

Russian Tourism

It is anticipated that 5.8% of GDP of Russian Federation in 2012 shall consists of revenues from the travel and tourism sectors. The contribution of travel and tourism sector to GDP is based mainly on the number of visitors arriving to the country in question. In 2011, Russia required around 15 billion US Dollar tourism exports and this figure is expected to increase by 0.3% in 2012. Further, it is estimated that the international tourists arriving shall reach 23.6 million in 2012 and the estimated

¹ World Travel & Tourism Council 2012

² Indicator for 2010 year end assigned by the World Bank Report

figures for the year 2022 are 33.3 million visitors and tourism export equaling to 18 billion US Dollars. The tourism receipts, which are approximately around 103 billion US Dollars, are expected to increase annually by 3.8% until 2022 and exceed 157 billion US Dollars.

The number of hotels and office projects has increased in accordance with the increase in demand due to projects, which have been suspended due to the economic crisis in the sector have been re-launched since the end of 2009. In 2011, the investments made reached 10 billion US Dollars and this amount is expected to increase by 2.1% for the investments in 2012. Further, 5.3% increase in investments, equaling to 18 billion US Dollars is anticipated for the year 2022. Moreover, Russia to host the FIFA 2018 World Cup indicates that the investments to this region will increase within the coming years. Moscow, in which the Company has developed projects, is one of the cities that will host the World Cup games. The Russian map showing Moscow can be found below.

Figure 2.1: Map of the Russian Federation



According to the report of World Travel & Tourism Council, Russia ranks amongst the top 10 countries in which the tourism sector will have the highest contribution to the economy in terms of tourism receipts.

Table 2.1: Tourism and Travel Sector Revenue Forecasts (Billion US Dollars)

Country	2012-2022
People's Republic of China	994.9
USA	465.2
India	146.3
Brazil	145.7
Mexico	81.6
Japan	76.9
Britain	74.7
Indonesia	73.3
Russian Federation	49.9
Thailand	49.7

(Source: World Travel & Tourism Council Report)

2.3 Tourism Sector in Moscow

Moscow, the capital of Russian Federation has a population around 10.4 million. The city is founded on approximately 1.000 km². The city, which has been founded on the Moscow river in the European side of the city extend towards vast Siberian plains over the Ural mountains on the west and reached Okatsk Sea on the East side.

Moscow is one of the preferred tourism destinations in the world with its countless number of museums, monasteries and churches. Pushkin Museum of Art, State Tretyakov Gallery, Moscow Museum of Modern Art, Chudov Monastery, Preobrazhenka Cemetery, Nativity Church and St. Nicholas Church are amongst the many historical and cultural sites located in Moscow. Besides the historical aspect of the city, it has high number of businessman and investor visitors during the year. Major industries of the city are metal processing and machinery manufacturer. Textile and clothing, chemical products, foodstuff, shoes and woodworks are amongst the other major industrial products.

The city visited approximately by 4 million visitors a year is expecting this number to reach 7 million as of 2016. Although, the Hotel Industry downsized due to the economic crisis in 2008; as of the end of 2009 it started showing signs of growth and has reached a bed capacity of 21,740 in 2010. Approximately 1.136 new beds were added to this bed capacity in 2011 and it is expected to increase by 7,000 until 2013

and the total growth is expected to be around 32%. The occupancy rate of hotels is around 70-80% annually and reaches 100% during peak season of cultural activities.

Moscow was first in most expensive cities ranking around the world according to 2007 statistics. It has one of the busiest and most concentrated subway systems in the world. The inner-city transportation is mainly carried out by subways, busses, trams and trolleybuses and transportation in more residential and rural areas uses Moscow Small Freeway and Moscow Metropolitan Area Peripheral Railway. Moscow has five airports, nine railway stations and two river terminals.

3. The Company

3. The Company

3.1 Incorporation and Current Status

HDI has been founded as a subsidiary of Akfen GYO in the Netherlands, with Akfen GYO owning 100% of its shares to realize hotel projects in Russia on 18 March 2011.

HDI is currently engaged in the Ibis Hotel Project in Moscow and signed a share purchase agreement for obtaining long-term rental and ownership option for Moscow Ibis Hotel's plot 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 Company is planning on carrying out the hotel project it has taken over on 24.11.2011 in Moscow in cooperation with Dinamo-Petrovskiy Park XXI Vek-MS Limited Company. The acquired company has signed an investment agreement in 2005 with the Moscow Government and is the beneficiary and right holder of the rental agreement, signed on 25.11.2009 and which was terminated on the date of this appraisal. Annexes dated 07.08.2010 and 12.07.2010 have been issued and incorporated to the rental agreement signed in 2009 in order to extend the project completion date until 31.12.2013. In November 2012, the Moscow Government unilaterally passed the decision to suspend the aforementioned investment. Despite this decision, in accordance with the resolution dated 11.04.2012 of Moscow Arbitration Tribunal, the request of the Moscow Government in this regard was rejected and this resolution came into force. However on 06.08.2012, the Moscow Government passed the decision to initiate a tender in order to find a new investor for the aforementioned plot. Akfen GYO filed a lawsuit against the Moscow Government in this regard and the lawsuit process is progressing in favor of Akfen GYO. The legal proceedings are still ongoing with regards to the cancelled rental agreement between the Moscow Government and Akfen GYO.

The Company has planned to carry out tourism investments on the aforementioned plot and this investment project shall consist of a facility with 480 rooms, which is projected to be operated by the Accord Group under Ibis Hotel brand name.

3.2 Shareholding and Capital Structure

The subscribed capital of the Company is 18,100 Euros as of the date of this report and 100% of this capital is subscribed by Akfen GYO of which HDI is a subsidiary of.

3.3 Financial Fixed Assets

As of the date of this appraisal report, HDI has affiliate companies owning 100% of Dinamo-Petrovskiy Park XXI Vek-MS Limited Company and Investments B.V. (“Dinamo”). Further, Dinamo-Petrovskiy Park XXI Vek-MS Limited Company has 100% of Keramit Financial Company Limited Company (“Keramit”).

3.4 Financial Statements

The condensed balance sheet dated 30 September 2012 of HDI, which was incorporated on 18.03.2011 is as indicated below.

Table 3.1: Balance Sheet of HDI

CONDENSED BALANCE SHEET OF HOTEL DEVELOPMENT AND INVESTMENTS B.V.

(TL)	30/09/2012
Cash and Equivalents	6,563
Other Current Assets	363
Total Current Assets	6,926
Investment Properties and Investment Properties in Progress	5,020,629
Total Fixed Assets	5,027,554
Financial Liabilities	86,068
Other Short-Term Liabilities	1,780,994
Provision for Employee Benefits	1,582
Total Short-Term Liabilities	1,868,644
Total Liabilities	1,868,644
Paid-in Capital	3,343,464
Foreign Currency Conversion Adjustments	41,563
Previous Year’s Profits (Losses)	- 47,789
Net Term Profit	- 178,328
Total Equity	3,158,910
TOTAL LIABILITIES	5,027,554

(Source: HDI)

The “Investment Properties and Investment Properties in Progress”, which is one of the major items in the assets of the Company, includes the hotel investment planned to be constructed on the plot as stated in the investment and rental agreement signed with the Moscow Government in 2005 and 2009.

The “Other Short-Term Liabilities”, which is a major item in the liabilities of the Company, includes the payment of 1,000,000 US Dollar to be realized by HDI to Dinamo. HDI has concluded an agreement with Dinamo at the time of purchase of the sales of Keramit and shall pay an additional fee equaling to 1,000,000 US Dollars to Dinamo upon commencement of the Moscow project. The liability indicated in this item is a conditional liability and shall only become payable upon commencement of the Moscow project.

Table 3.2: Income Statement of HDI

CONDENSED INCOME STATEMENT OF HOTEL DEVELOPMENT AND INVESTMENTS B.V.

(TL)	30/09/2012
General Administration Expenses	- 122,991
Other Operating Costs/Income	- 59,411
OPERATING PROFIT	- 182,403
Financial Expenses/Income	5,213
Deferred Tax Expenses/Income	- 1,138
NET TERM PROFIT/LOSS	- 178,328

(Source: HDI)

The Company has not generated any operating income yet and the 59,411.00 TL under “Other Operating Costs/Income” reflects the net value of payments realized for balance of VAT receivables.

4. Appraisal

4. The Appraisal

4.1 Scope and Methodology

The Net Asset Value method has been utilized for determining the fair market value of HDI. 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 and 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 HDI 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 with other items included in the assets of HDI 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 the hotel project planned to be realized on the plot in accordance with the investment agreement signed by Dinamo, which was later acquired by HDI in 2005 with the Moscow Government and the rental agreement signed on 25.11.2009 and which was cancelled on the date of this appraisal. Annexes dated 07.08.2010 and 12.07.2010 have been issued and incorporated to the rental agreement signed in 2009 in order to extend the project completion date until 31.12.2013.

No detailed financial or legal inspection and 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 153.768.282 TL.

Table 4.1: Net Asset Value of HDI

**NET ASSET VALUE OF HOTEL DEVELOPMENT AND
INVESTMENTS B.V. AS OF 31/12/2012**

TL	
+ Cash and Equivalents	6,563
+ Investment Properties and Investment Properties in Progress	155,630,000
+ Other Current Assets	363
Total Assets	155,636,926
- Financial Liabilities	86,068
- Other Short-Term Liabilities	1,780,994
- Provisions for Employee Benefits	1,582
Net Asset Value	153,768,282