

**HDI DEVELOPMENT AND INVESTMENTS  
B.V.**

**Company Appraisal Report**

*January 2015*

## **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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## Introduction and Scope

## 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 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 the hotel project in HDI’s portfolio 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, stated in the related real estate appraisal report of EPOS Gayrimenkul Danismanlik ve Degerleme A.S., have been revised by the Company for Net Asset Value calculations. Based on the revised value, all liabilities and liability allowances indicated under liabilities item to be deducted

from the revised assets of the Company, shown in the balance sheet dated 31 December, 2014 of HDI.

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.

Based on the Share Purchase Agreement signed on 4 September 2013 between HDI, the wholly owned company of Akfen GYO, and Beneta Limited, Severnyi Avtovokzal Limited shares have been taken over by HDI B.V. with a cost of USD 12,975,000 on 4 September 2013. The Company Severnyi Avtovokzal is located in central Moscow on a plot of 2,010 m<sup>2</sup> and it has a room capacity of 317. Further the company has the rights of the project ("Moscow Hotel Project") that received construction permits. Based on the rental contract signed with Accor on 29 January 2014, Moscow Hotel Project will be operated by Accor under IBIS brand once investments are completed and an appraisal report has been issued by EPOS Gayrimenkul Danismanlik ve Degerleme A.S., in order to assess the fair market value of the rights and benefits arising out of the aforementioned Share Purchase Agreement on 31.12.2014.

The Company had taken over Dinamo-Petrovskiy Park XXI Vek-MS Limited Company on 24.11.2011 in Moscow in order to carry out another project, 1 km from the aforementioned hotel investment. HDI signed an investment agreement with Moscow Government in 2005 and a rental agreement on 25.11.2009. However, legal process on rental agreement regarding the right of use of the plot of 3,000 m<sup>2</sup>, which is owned by Dinamo-Petrovskiy Park XXI Vek-MS, the 100% owner of Keramit Financial Company that is taken over by HDI. According to the disclosure of Akfen GYO dated on 31 September, 2013, the court of first instance declared that HDI, the subsidiary company of Akfen GYO that sue the Moscow government, will be paid 199,775,062.2 Rouble (around 4,560,000 Euro). The respective amount has been collected by the company's subsidiary at 3 June, 2014. As of 31 January, 2014 Dinamo-Petrovskiy Park XXI Vek-MS Limited has been liquidated and its assets have been transferred to Severny Autovakzal Limited.

Sector

## Sector

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

Tourism sector, rapidly growing and expanding since 1950 globally, is creating significant economic value for many countries across the world and having both direct and indirect benefits to economies. Creating large employment opportunities owing to its labor-intensive nature and generating added value in which regions and countries the sector is developing attach higher importance to the tourism sector. Tourism, considered as one of the largest industries contributing to economies, continue to grow and develop.

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 strengthens 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. Depending on the demand for tourism sector, infrastructure developments, increasing agricultural and industrial production, improvements in communication and transportation systems, increased efficiency in mercantile and service businesses are expected. The tourism sector, which is also an effective marketing and advertisement tool for countries, contributes to international cultural and social communication.



According to the World Travel & Tourism Council 2014 Report, tourism sector, which constitutes 9.5% of today's global GDP, grew by nearly 5% in 2013. Considering the effect on other sectors, the size of travel and tourism sector far exceeded USD 6.9 trillion with a share of 9.5% in global GDP, employing 261.4 million people in total. Further, when travel and tourism sector is classified according to foreign tourist expenditures, leisure and business spending constitute 75.6% and 24.4% of foreign expenditures with a total size of 5,3 trillion respectively.

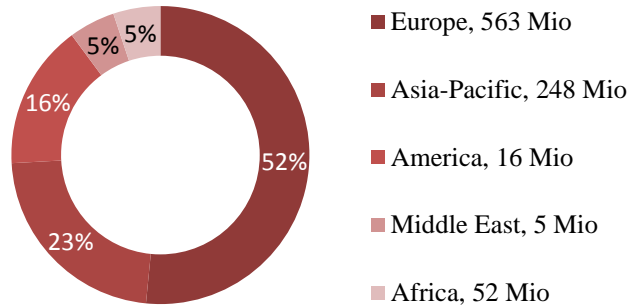
Travel and tourism industry is projected to grow with an annual average rate of 4.2%, reaching USD 10.9 trillion, which is 10,3% of the global GDP, in 10 years. Owing to growth in sector, improved standards of living and rising disposable income, foreign leisure spending is expected to grow with 4.4%, reaching USD 5.4 trillion whereas foreign business spending is expected to reach USD 1.66 trillion with a growth of 3.7% by 2024.

According to World Tourism Organization (WTO) 2014 Report, Europe is the most visited region by tourists in 2013, with a share of 52% and approximately 563 million tourists. Further, it is explained in the report that number of tourists travelling around the world showed a growth of 5% and reaching 1.087 billion in 2013. According to the same report, number of tourists travelling showed a growth of 5.5% in emerging markets, 4.7% in developed countries, 6% in Asia-Pacific countries with the highest rate. Considering the economic recession especially in the Euro Zone in 2013, the number of tourists exceeding 1 billion for the first time with growth of 4% in the tourism sector is seen as a positive development for the sector. Regarding the future expectations, number of tourists travelling is predicted to rise to 1.8 billion, 5 million people is predicted to travel internationally; fastest growth in the sector is predicted to be in Asia-Pacific countries and travels for visiting families, friends or with health purposes is predicted to dominate travels for leisure and business purposes in 2030.<sup>1</sup>

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<sup>1</sup> World Tourism Organisation 2014

**Graph 1: Breakdown of Number of Tourists (in Million People) and Shares (%) by Regions in 2013(%)**



Source: World Tourism Organization 2014 Report

## Tourism Sector in Russia

- **Economic Overview**

Russia, as the major natural gas producer and the second largest petrol producer in the world, achieved a GDP of 2.1 trillion US Dollars in 2013. Russia is the 8<sup>th</sup> largest economy in the World with its 2013 GDP figure. It is anticipated that Russian Economy will achieve to be the 7<sup>th</sup> largest economy of the world by 2022 with 4.2 trillion US Dollars size, surpassing western economies.<sup>2</sup>

Russia 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. In 2012 and 2013, Russia's growth decreased to %3.4 and %1.3 respectively, according to information released from the Russian State Institute of Statistics, the major reasons of decline of growth are the decrease in the export of energy resources due to the decrease in demand and economic stagnation in the Euro Zone, slowdown in consumer loans and the decline in production of in mining and electricity industries. Due to the political instability caused by the Ukrainian dispute, the country's growth forecast for 2014 and 2015 is given by the IMF as respectively 0.5% and 1,5%.

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

<sup>2</sup> CEBR forecast

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%. In 2012, inflation dropped to 5.1% with Russian economy's improving performance and the figure is increased again, to the level of 6.8% in 2013. As of August 2014, the inflation has been recorded at 8.3%..

- *Russian Tourism Sector*

Russia has a population of approximately 143.5 million as of 2013, and the country's travel and tourism sector constituted 5.8% of the total economic output with the size of 85.7 billion US Dollars. The contribution of travel and tourism sector to GDP is based mainly on the number of visitors arriving to the country in question. Russia attracted 27 million tourists in 2013 achieving 13.7 billion US Dollars tourism exports. It is forecasted that the number of tourists will reach 31.4 million in 2014 with a growth level of 9.7% In addition, number of tourists is expected to reach 63.2 million in 2024 creating a value of 27 billion US Dollars. Total product of the tourism sector, with around 108.4 billion US Dollars size, is expected to increase by 5.7% in 2013 and will increase at an annual average of 3.7% reaching 130 billion US Dollars in 2023. However, it is expected that the Ukrainian political dispute will cause negative effect on tourism sector output.

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 2013, the investments made reached 8.3 billion US Dollars. Further, 3.8% increase in investments, equaling to 12.3 billion US Dollars is anticipated for the year 2024. 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



### *Tourism Sector in Moscow*

Moscow, the capital of Russian Federation, has a population around 10.5 million. The city is founded on approximately 1.000 km<sup>2</sup>. 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. Another factor reinforcing the potential in tourism in the region is the construction of a stadium for the World Cup that will be held in Moscow in 2018. With a 44,920 capacity stadium, it is forecasted that importance of the city will rise and it will become a tourism

region, promising development.

Due to the political crisis between Ukraine and Russia, it is stated that the incoming tourists from Europe have been decreased by 20-25%, from United States and Canada have been decreased by 30%-40%. Although, the Hotel Industry downsized due to the economic crisis in 2008; as of the end of 2009 it started showing signs of growth. In 2013, a number of global hotel chains such as Novotel, Kempinski, Ibis, Mercure and Adagio, have expanded their operations in the country, and it is expected that Marriott, DoubleTree by Hilton and Four Seasons will also start to build new hotels. For 2013, the occupancy rate was recorded as %67.5 and it is expected to reach %68.6 and %68.1 in 2014 and 2015 respectively. One major opportunity in the sector is the tax privileges given by the government to the investors that will renovate the old buildings in the city center.

Moscow, the second most expensive cities ranking around the world according to the survey conducted by Mercer Human Resources in 2014, 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 three main airports, nine railway stations and two river terminals.

## The Company

## Company Overview

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### ***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 signed a Share Purchase Agreement with Beneta Limited, the 100% owner of Severny Autovakzal Limited Company that has the rights of hotel plot, with a cost of USD 12,975,000 in order to realize the hotel project with Severny Autovakzal Limited Company,. The company to be taken over has signed a rental agreement for the real estate with Moscow Government that is to be valid between 20.04.2010 and 24.09.2056 under the responsibility for realizing a hotel project. Moreover, there is additional rental agreement arranged on 02.06.2011. State's appraisal report for the real estate which is necessary for the hotel project is available as of 02.12.2011. 10-floor (9 floors + 1 basement) hotel project that is to be built on a total closed area of 12,143 m2 has been approved by Moscow Government in the report. Construction permit for the approved project under specified conditions has been taken on 19.04.2012, that is valid until 19.04.2014 was expanded to 31.12.2014. Company reported that required applications has been completed to expand the validity date further to 31.03.2015

The hotel project includes 317 rooms, that is to be built on 2,010m2 land, whose the right of use belongs to Severny, and will be run under the brand of Ibis Otel. HDI came to an agreement with Ant Yapı for the turnkey construction of the hotel building for a value of 16,500,000 Euro + VAT and construction for the project started on September 2013. 33% of the project is completed as of 31 December, 2013 and as far as the investments are completed, based on the rental contract signed with Accor on 29 January 2014, the Moscow Hotel Project will be operated by Accor Group under Ibis Hotel brand. According to the same rental contract, either 25% of total sales or 85% of AGOP (Adjusted Gross Operating Profit), depending on which one is higher, will be paid to HDI as rental income.

The Company had taken over Dinamo-Petrovskiy Park XXI Vek-MS Limited Company on 24.11.2011 in Moscow in order to carry out another project, 1 km from the aforementioned hotel investment. Dinamo signed an investment agreement with Moscow Government in 2005 and a rental agreement on 25.11.2009

### ***Shareholding and Capital Structure***

The paid in capital of the Company is 23.062.678 TL as of the date of this report.

### ***Financial Fixed Assets***

As of the date of this appraisal report, Severny is the wholly owned subsidiary of HDI.

### ***Financial Statements***

The condensed balance sheet dated 31 December, 2014 of HDI, which was incorporated on 18.03.2011 is as indicated below.



Table 3.1: Balance Sheet of HDI

<b>HOTEL DEVELOPMENT AND INVESTMENTS B.V.</b>	
<b>CONDENSED BALANCE SHEET</b>	
<b>(TL)</b>	<b>31.12.2014</b>
Cash and Equivalents	4,068,609
Other Current Assets	5,045,458
<b>Total Current Assets</b>	<b>9,114,067</b>
Investment Properties and Investment Properties in Progress	170,116,000
Tangible Fixed Assets	31,101
Intangible Fixed Assets	33,632
<b>Total Fixed Assets</b>	<b>170,180,733</b>
<b>TOTAL ASSETS</b>	<b>179,294,800</b>
Other Short-Term Liabilities	196,368
<b>Total Short-Term Liabilities</b>	<b>196,368</b>
Long-Term Financial Liabilities	63,542,245
Deferred Tax Liabilities	22,974,894
<b>Total Long-Term Liabilities</b>	<b>86,517,139</b>
<b>Total Liabilities</b>	<b>86,713,507</b>
Paid-in Capital and Capital Advanced	23,062,678
Foreign Currency Conversion Adjustments	-57,651,000
Previous Year's Profits (Losses)	42,342,293
Net Term Profit (Losses)	84,827,322
<b>Total Equity</b>	<b>92,581,293</b>
<b>TOTAL LIABILITIES</b>	<b>179,294,800</b>

The major item in the assets of the Company Balance Sheet is the “Investment Properties and Investment Properties in Progress”, which amounts to 170,116,000 TL. The amount indicates the value of the Moskova IBIS Hotel, which is currently being built, as in the real estate appraisal report of 31 December, 2014.

“Other Current Assets” includes “Receivables from Related Parties” which amounts to 2,092,910 TL.

The major item in the liabilities of the company is the “Long-Term Financial Liabilities”, which amounts to 63.542.245TL, is related with the credit from Credit Europe Bank, which is used for construction of Moskova Ibis Otel. “Other Short-Term Liabilities” includes “Other Trade Payables” amounts to 26,512 TL, “Other Liabilities” amounts to 62,620 TL, “Provisions for Employee Benefits (Short-Term)” amounts to 107,236 TL.

Table 2: HDI Income Statement

<b>HOTEL DEVELOPMENT AND INVESTMENTS B.V.</b>	
<b>CONDENSED INCOME STATEMENT</b>	
<b>(TL)</b>	<b>31.12.2014</b>
Net Sales	0
Cost of Sales	-282,980
General Administration Expenses	-1,517,023
Other Operating Costs/Income	127,018,586
<b>Operating Profit</b>	<b>125,218,583</b>
Financial Expenses/Income	-18,795,238
Deferred Tax Expenses/Income	-21,596,024
<b>Net Term Profit/Loss</b>	<b>84,827,321</b>

(Source: HDI)

## Appraisal

# The Appraisal

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## ***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 31 December, 2013, 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 31 December, 2014 is “Investment Properties and Investment Properties in Process” has been revised by the Company according to the market value stated on the expertise report dated 31.12.2014 of EPOS Gayrimenkul Değerleme A.S. 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.

Company’s fixed assets include the hotel investment project to be grounded on the plot tied with rental agreement signed between the 100% subsidiary Severny and Moscow Government on 20.04.2010.

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.

### **Appraisal Results**

The Net Asset Value of the Company based on the balance sheet dated 31 December, 2014 has been valued as 92,581,292 TL.

**Table 3: Net Asset Value of HDI**

<b>HOTEL DEVELOPMENT AND INVESTMENTS B.V.</b>	
<b>31.12.2014 İTİBARIYLA NET AKTİF DEĞERİ</b>	
+ Cash and Equivalents	4,068,609
<b>+ Investment Properties and Investment Properties in Progress</b>	<b>170,116,000</b>
+ Tangible Fixed Assets	31,101
+ Intangible Fixed Asset	33,632
+ Other Current Assets	5,045,458
<b>Total Assets</b>	<b>179,294,800</b>
- Other Short Term Liabilities	196,368
- Long-Term Financial Liabilities	63,542,245
- Deferred Tax Liabilities	22,974,894
<b>Net Asset Value</b>	<b>92,581,292</b>