

HOTEL DEVELOPMENT AND INVESTMENTS B.V.

Company Appraisal Report



Türkiye Sınai Kalkınma Bankası A.Ş.

19 February 2014

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.

Table of Contents

1. Introduction and Scope	4
2. Sector	8
2.1. <i>Tourism Sector in the World</i>	9
2.2 <i>Tourism Sector in Russia</i>	11
2.3 <i>Tourism Sector in Moscow</i>	13
3. The Company	15
3.1 <i>Incorporation and Current Status</i>	16
3.2 <i>Shareholding and Capital Structure</i>	17
3.3 <i>Financial Fixed Assets</i>	17
3.4 <i>Financial Statements</i>	17
4. Appraisal	20
4.1 <i>Scope and Methodology</i>	21
4.2 <i>Appraisal Results</i>	22

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 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 TSKB, 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, 2013 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 m² 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 TSKB Gayrimenkul Değerleme A.Ş. in order to assess the fair market value of the rights and benefits arising out of the aforementioned Share Purchase Agreement on 31.12.2013.

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. However, legal process on rental agreement regarding the right of use of the plot of 3,000 m², which is owned by Dinamo-Petrovskiy Park XXI Vek-MS, the 100% owner of Keramit Financial Company that is taken over by HDI on 24 December, 2011 is in progress. According to the disclosure of Akfen GYO dated on 31 December, 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) by the Moscow government. According to the information provided by the Company, upon the results of the first case, Government of Moscow has appealed within the 2-month appeal period. The case was held at the appeal court on 23 December 2013 and the first court decision was upheld subsequently. The Company officials indicated that

Government of Moscow has been entitled to appeal to the high court until 26 February 2014, and the Company's lawyers appealed to higher court on 6 February 2014 to expedite the process. Furthermore, on 10 February 2014, Government of Moscow also appealed to higher court. Accordingly, the hearing is expected be held on 15 March 2014 at the latest depending on the workload of the court.

2. Sector

2. Sector

2.1 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 2013 Report, tourism sector, which constitutes an important part of today's global GDP, grew by nearly 4% in 2013. Considering the effect on other sectors, the size of travel and tourism sector far exceeded USD 6.6 trillion with a share of 9.3% 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 76% and 24% of foreign expenditures with a total size of 5,3 trillion respectively.¹

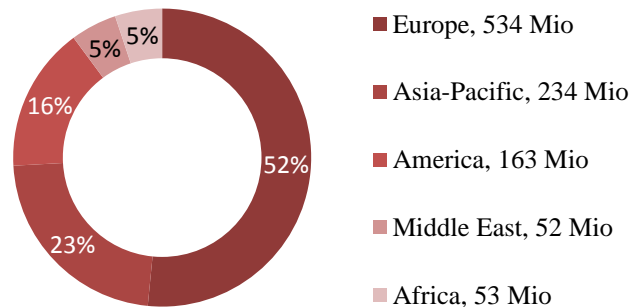
Travel and tourism industry is projected to grow with an annual average rate of 4.4%, reaching USD 10.5 trillion, which is 10% of the global GDP, in 10 years. Owing to growth in sector, improved standards of living and rising disposable income, foreign leisure spending is expected to grow with 4.6%, reaching USD 5.2 trillion whereas foreign business spending is expected to reach USD 1.6 trillion with a growth of 4.1% by 2023.

According to World Tourism Organization (WTO) 2013 Report, Europe is the most visited region by tourists in 2012, with a share of 52% and approximately 534 million tourists. Further, it is explained in the report that number of tourists travelling around the world showed a growth of 4% and reaching 1.035 billion in 2012. According to the same report, number of tourists travelling showed a growth of 4.3% in emerging markets, 3.7% in developed countries, 7% in Asia-Pacific countries with the highest rate. Considering the economic recession especially in the Euro Zone in 2012, 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 2030.²

¹ World Travel & Tourism Council 2013

² World Tourism Organization 2013

Graph 1: Breakdown of Number of Tourists (in Million People) and Shares (%) by Regions in 2012



Source: World Tourism Organization 2013 Report

2.2 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 1.9 trillion US Dollars in 2012. The country's GDP is expected to be exceed 2.2 trillion US Dollars in 2013¹. Russia is the 9th largest economy in the World with its 2012 GDP figure. It is anticipated that Russian Economy will achieve to be the 7th largest economy of the world by 2022 with 4.2 trillion US Dollars size, surpassing western economies.²

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, Russia's growth decreased to 3.4% and 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. The country's growth forecast for 2013 and 2014 is given by the IMF as respectively 1.5% and 3%.

¹ IMF forecast

² CEBR forecast

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%. In 2012, inflation dropped to 5.1% with Russian economy's improving performance. According to data published by the IMF, the rate of inflation will be at 6.9% in 2013. Estimated inflation rate between 2014 and 2017 is expected to be 6%.

Russian Tourism

Russia has a population of approximately 145.1 million as of 2012, and the country's travel and tourism sector constituted 5.9% of the total economic output with the size of 26.1 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 23.6 million tourists in 2012 achieving 17.6 billion US Dollars tourism exports. It is forecasted that the number of tourists will reach 30.6 million in 2013 and tourism exports will grow at 7.2% the same year. In addition, number of tourists is expected to reach 52.5 million in 2023 creating a value of 30.4 billion US Dollars. Total product of the tourism sector, with around 108.4 billion US Dollars size, is expected to increase by 5.6% in 2013 and will increase at an annual average of 4.6% reaching 179.4 billion US Dollars in 2023.

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 2012, the investments made reached 10.8 billion US Dollars and this amount is expected to increase by 0.3% for the investments in 2013. Further, 5.7% increase in investments, equaling to 18.9 billion US Dollars is anticipated for the year 2023. 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



2.3 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 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 Tretayakov 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.

The city, visited approximately by 5 million visitors in 2013 year is expecting this number to reach 14.8 million as of 2025. Although, the Hotel Industry downsized due to the economic crisis in 2008; as of the end of 2009 it started showing signs of growth. The number of hotels, 328 in 2012, is expected to reach 671 by 2025. The occupancy rate of hotels is around 70-80% annually and reaches 100% during peak season of cultural activities.

Moscow, the second most expensive cities ranking around the world according to the survey conducted by Mercer Human Resources in 2013, 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.

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 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.

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. However, legal process on rental agreement regarding the right of use of the plot of 3,000 m², which is

owned by Dinamo-Petrovskiy Park XXI Vek-MS, the 100% owner of Keramit Financial Company that is taken over by HDI on 24 December, 2011 is in progress. The project was supposed to include 480 rooms and planned to be operated by Accor Group under Ibis Hotel brand. According to the disclosure of Akfen GYO dated on 30 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) by the Moscow government. According to the information provided by the Company, upon the results of the first case, Government of Moscow has appealed within the 2-month appeal period. The case was held at the appeal court on 23 December 2013 and the first court decision was upheld subsequently. The Company officials indicated that Government of Moscow has been entitled to appeal to the high court until 26 February 2014, and the Company's lawyers appealed to higher court on 6 February 2014 to expedite the process. Furthermore, on 10 February 2014, Government of Moscow also appealed to higher court. Accordingly, the hearing is expected be held on 15 March 2014 at the latest depending on the workload of the court.

3.2 Shareholding and Capital Structure

The paid in capital and capital advanced of the Company are 39,347 TRY and 17,067,348 TRY respectively, as of the date of this report.

3.3 Financial Fixed Assets

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

3.4 Financial Statements

The condensed balance sheet dated 31 December, 2013 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)	31.12.2013
Cash and Equivalents	630,539
Other Current Assets	185,723
Total Current Assets	816,262
Investment Properties and Investment Properties in Progress	155,319,836
Other Fixed Assets	1,683,129
Total Fixed Assets	157,002,965
TOTAL ASSETS	157,819,227
Trade Payables	344,420
Other Short-Term Liabilities	139,651
Total Short-Term Liabilities	484,071
Long-Term Financial Liabilities	36,664,638
Deferred Tax Liabilities	24,934,432
Total Long-Term Liabilities	61,599,069
Total Liabilities	62,083,140
Paid-in Capital and Capital Advanced	17,106,695
Foreign Currency Conversion Adjustments	3,004,968
Previous Year's Profits (Losses)	-274,870
Net Term Profit (Loss)	75,899,294
Total Equity	95,736,087
TOTAL LIABILITIES	157,819,227

(Source: HDI)

The major item in the assets of the Company Balance Sheet is the “Investment Properties and Investment Properties in Progress”, which amounts to 155,319,836 TL. 152,110,000 TL of this amount includes the hotel investment planned to be constructed on the plot as stated in the investment and rental agreement signed between Severny, that is a 100% subsidiary of HDI, and Moscow Government in 2010, and the rest includes costs for the previous hotel project of HDI.

The “Other Current Assets” item includes deferred VAT and deferred taxes accounts.

The "Long-Term Financial Liabilities", the major item in the liabilities of the Company, includes the credit used on 2 September 2013 from Credit Europe Bank with an amount of 7,500,000 Euro. Credit period is 8 years and the total size of loans is EUR 12.4 million.

Table 3.2: Income Statement of HDI

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

(TL)	31.12.2013
Cost of Sales	-26,526
General Administration Expenses	-1,175,268
Other Operating Costs/Income	98,129,283
OPERATING PROFIT	96,927,489
Financial Expenses/Income	-2,056,490
Deferred Tax Expenses/Income	-20,026,975
NET TERM PROFIT/LOSS	74,844,023

The Company has not generated any operating income yet and “Cost of Sales” account includes rental fee for the land. The “Other Operating Costs/Income” reflects mainly the capital appreciation resulting from an increase in land valuation and this increase is subject to tax.

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 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, 2013 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 31.12.2013 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.

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.

4.2 Appraisal Results

The Net Asset Value of the Company based on the balance sheet dated 31 December, 2013 has been valued as 95,736,087 TL.

Table 4.1: Net Asset Value of HDI

NET ASSET VALUE OF HOTEL DEVELOPMENT AND INVESTMENTS B.V. AS OF 31/12/2013	
+ Cash and Equivalents	630,539
+ Investment Properties and Investment Properties in Progress	155,319,836
+ Other Current Assets	1,868,852
Total Assets	154,609,390
- Other Short Term Liabilities	484,071
- Long-Term Financial Liabilities	36,664,638
- Deferred Tax Liabilities	24,934,432
Net Asset Value	95,736,087